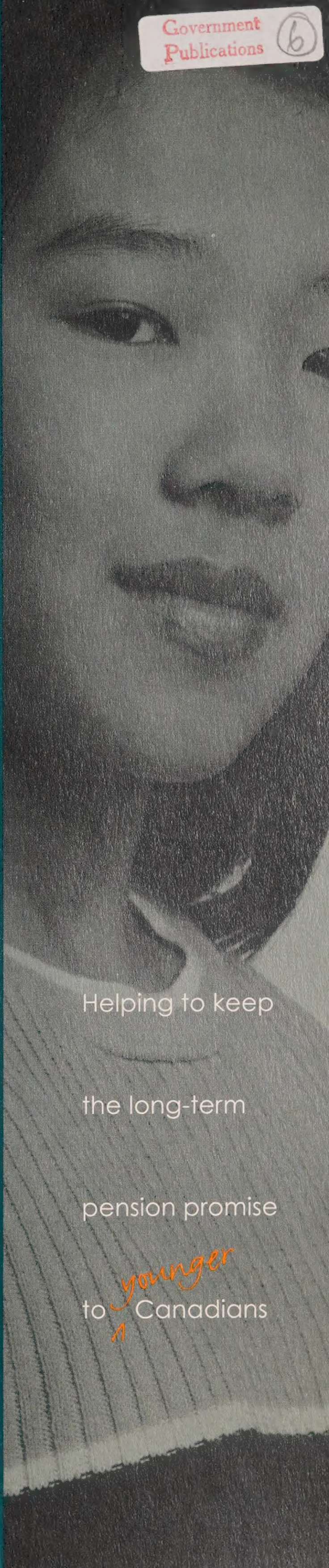
CPP INVESTMENT BOARD

ANNUAL REPORT 2001

Fiscal year ended March 31, 2001

CANADA
PENSION PLAN
INVESTMENT
BOARD



PROFILE

The CPP Investment Board was created by an Act of Parliament in December 1997 to invest funds not required by the Canada Pension Plan to pay current pensions. By March 31, 2001, we had $7.2 billion invested in Canadian and foreign equities and by 2011 we expect to be managing at least $130 billion in a diversified investment portfolio.

The CPP Investment Board is governed by a board of directors with extensive business, investment and financial expertise, and is managed by investment and business professionals from the private sector.

We operate independently of the Canada Pension Plan and at arm's length from the federal and provincial governments.

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CPP INVESTMENT BOARD

VISION

Earn the confidence of Canadians that we are working for them to help the Canada Pension Plan to keep its pension promise.

MISSION

- Invest in the best interests of CPP contributors and beneficiaries.
- Maximize long-term investment returns without undue risk of loss, having regard for the obligations and assets of the Canada Pension Plan.
- Tell our story to Canadians.

LONG-TERM OBJECTIVES

- Contribute to the financial strength of the Canada Pension Plan.
- Earn returns that fairly compensate for the risks taken and costs incurred (i.e. risk-adjusted net value added).
- Manage the CPP Investment Board professionally and cost effectively.
- Help Canadians to understand what we are doing.

FISCAL 2001 OBJECTIVES	STATUS
Complete the recruitment of the senior management team.	Substantially complete.
Develop a comprehensive risk management framework.	Approved by the board of directors. See page 9.
Review asset allocation policy and develop investment strategy alternatives.	Approved by the board of directors. See page 12.
Enhance benchmarking and performance measurement capabilities.	Approved by the board of directors. See page 17.
Complete program of public reporting meetings across Canada.	Completed in January 2001. See page 2.

FISCAL 2002 OBJECTIVES

Implement investment risk management framework.

Diversify portfolio investment activities, including introduction of active management.

Control our costs as we expand operations and diversify investment activities.

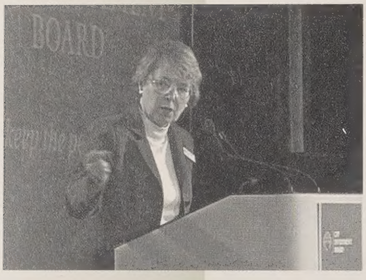
Redesign and expand the Web site as our primary medium of public communications.

REPORT FROM THE CHAIR

A highlight of our second fiscal year was a series of public meetings at which President John MacNaughton and I discussed the progress of the CPP Investment Board with Canadians interested in our activities. Our legislation requires us to hold a public meeting at least every two years in each of the nine provinces that participate in the Canada Pension Plan. Meetings were held in January 2001 in Fredericton, Charlottetown, Halifax, St. John's, Winnipeg, Regina, Edmonton, Victoria and Toronto.

REACHING OUT TO CANADIANS

In addition to the public meetings, one of which was broadcast several times by a national television service, we engaged Canadians through open line radio shows, meetings with newspaper editorial boards and informal stakeholder get-togethers.



GAIL COOK-BENNETT CHAIRED OUR FIRST SERIES OF PUBLIC MEETINGS ACROSS CANADA IN JANUARY 2001.

The informal stakeholder meetings included pension fund portfolio managers, professionals and business executives, and pensioners at sessions in Atlantic Canada; university students, union leaders and anti-poverty advocates in Western Canada; and financial planners in Central Canada. As the public meetings were held in provincial capitals, we also discussed our progress with provincial finance ministers and their staff responsible for the Canada Pension Plan.

LISTENING TO CANADIANS

A number of issues emerged during these meetings:

- Canadians wondered if we are independent from governments in making investment decisions.

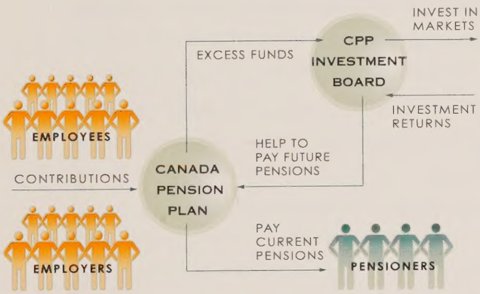
  We assured them that we are. Legislation requires the CPP Investment Board to be governed by an independent and qualified board of directors. We in turn have hired investment professionals from the private sector.
- Younger Canadians wondered if the Canada pension would be there when they retire. The federal Chief Actuary has projected that CPP contributions will exceed benefits until 2021. After that, contributions plus investment income will pay benefits. Our efforts will be especially important in helping to pay the pensions of younger workers who are decades away from retirement.

- Canadians were curious to know the expertise of the organization.
  We shared the credentials and experience of our president and executives hired to date, and the business and financial expertise of our board of directors.
- Some people wondered why we invest solely in equities.
  One reason is to complement the large bond portfolio owned by the Canada Pension Plan. Another reason is our long investment horizon, which should give equities time to show superior performance, despite periodic stock market downturns as occurred in fiscal 2001.

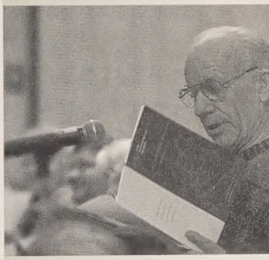
A DISTINCTIVE CROWN CORPORATION

In December 2000, the Auditor General of Canada issued an important report on the governance of crown corporations. He found that the boards of many crown corporations lack key skills and capabilities and have ineffective audit committees.

OUR RELATIONSHIP TO THE CANADA PENSION PLAN



The federal and provincial governments legislated that a preponderance of our directors have financial and business expertise and mandated a new nominating procedure to identify qualified directors. As a result, we were able to select a chartered accountant, an actuary, a retired bank executive, and a valuation specialist for the audit committee. In turn, they encouraged the development of an enterprise-wide framework to manage, assess and monitor risks.



ACKNOWLEDGEMENTS

To three outstanding founding directors, Susan Carnell, Richard McAloney and Pierre Michaud, my sincere gratitude for their commitment and judgment in our formative stages. To Gilbert Gill, Monique Leroux and Helen Sinclair, a warm welcome to the board of directors. To John MacNaughton and his staff, our appreciation for developing strategies that will shape the direction of the CPP Investment Board for many years to come.

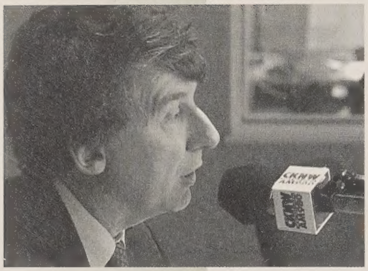
Gail Cook-Bennett

GAIL COOK-BENNETT
Chairperson

REPORT FROM THE PRESIDENT

Our second full fiscal year saw substantive progress on many fronts. Our concept of a virtual corporation, led by a small team of experienced investment professionals, gained definition as we recruited key executives. We developed our strategic plan and investment management framework to provide context and cohesion for all our activities. We moved from solely passive to partially active investing. And we took our story on the road to communicate with Canadians.

While these developments were going on, we invested $5.6 billion in stock markets, which performed well in the first half of fiscal 2001 before declining sharply in the second half. As a result, we incurred a fiscal-year loss.



JOHN A. MACNAUGHTON PARTICIPATED IN RADIO SHOWS, MEDIA INTERVIEWS AND INFORMAL STAKEHOLDER GET-TOGETHERS AS PART OF OUR PUBLIC MEETINGS TOUR.

BUILDING OUR VIRTUAL CORPORATION

Our notion of a virtual corporation envisages a lean and cost-effective organization. Our small team of executives and their managers will develop strategies and establish partner-like relationships with external professionals to manage our assets and increase their long-term value. However, we will consider building internal capabilities if better results net of costs can be achieved.

The key building blocks of our virtual corporation are almost in place. Most of our executives have been recruited and other specialized professionals and staff are on board, bringing our team to 15 at year end. We anticipate a staff of approximately 30 people by the end of fiscal 2002.

We have the knowledge and experience to drive the CPP Investment Board forward with vigor and confidence.

OUR STRATEGIC PLAN

The development of our strategic plan was a major accomplishment in fiscal 2001. A key component is the investment management framework that is the intellectual link between our vision, mission and objectives and our strategies for advancing them.

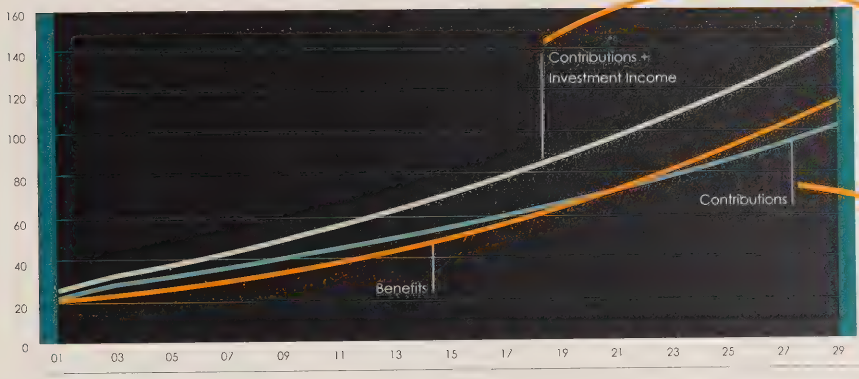
One of our challenges is to earn at least the rate of return assumed by the Chief Actuary for the assets we manage. If we do that consistently, we will make a positive contribution to the Canada Pension Plan in the decades ahead.

The actuarial assumption is a 4 percent real rate of return (4 percent above inflation), a rate no assets currently guarantee. The closest are federal government real-return bonds that yielded 3.5 percent above inflation at the end of March 2001. If that is the best that a risk-free asset can offer, then obviously we will have to assume risk to maximize returns to the level required. Balancing risks and rewards is central to our work.

The Chief Actuary has projected that contributions by workers and employers will exceed Canada Pension Plan benefit payments to pensioners until 2021. The growth in assets we create by investing the annual excess over the next 20 years, and the annual investment income those assets generate, should more than compensate for the shortfall between contributions and benefit payments for decades after 2021.

HELPING TO PAY FUTURE PENSION BENEFITS

($ billions)



Assure long-term CPP financial viability.

Contributions alone will exceed benefit payments until 2021.

With such a distant investment horizon, we can afford to be patient and assume risk by investing in assets that may produce negative returns from time to time, but will generate positive results over the long term. The assets with the best risk/reward profile for our purposes are equities.

Risk is a double-edged sword. The more risk we take on to earn superior long-term returns, the higher the potential loss in the short term. Our objective is to generate risk-adjusted net value added, that is returns after costs that are appropriate to compensate for the risks taken.

THE MOVE FROM PASSIVE TO PARTIALLY ACTIVE INVESTING

Since making our first investment in March 1999, we have invested solely in equities to balance the large bond portfolio and cash reserves owned by the Canada Pension Plan.

Our Canadian equity investing is governed by federal regulation. During our first 18 months, we could only invest passively in index funds. (Outside Canada, we could invest actively or passively and so far have decided to invest passively in equity index funds). The Canadian equity restriction worked well in our first fiscal year, when the TSE 300 index ranked among the top performers in the world.

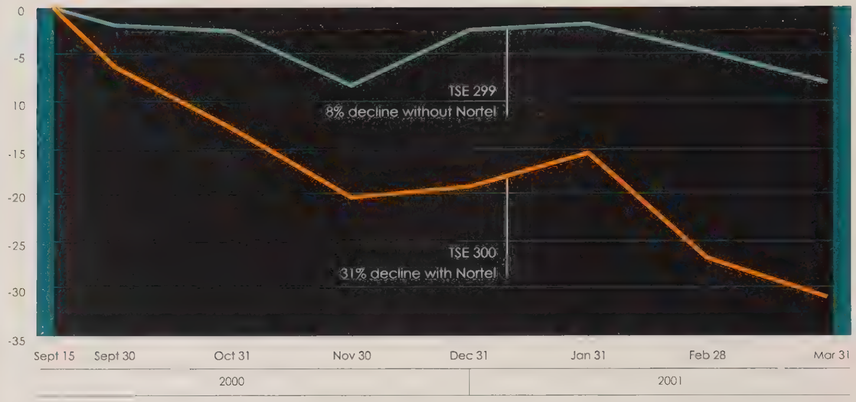
In August 2000, the regulation was relaxed to allow up to 50 percent of the capital allocated to Canadian equities to be actively managed. We made our first active decision soon after the regulatory change became effective. Our goal was to reduce our exposure to Nortel Networks, a stock that represented 35 percent of the TSE 300 Index at the time and about 28 percent of our total assets. That level of concentration in a single stock carried far too much risk, no matter how good the company.

In essence, we divided our Canadian equities effective September 15 between the TSE 300 fund and a fund of the TSE 300 excluding Nortel. The difference in performance through the remainder of the year was startling, as the following chart illustrates. This initiative avoided $535 million in losses that would otherwise have occurred and reduced our largest concentration in a single security to approximately 4 percent by year end.

Our first active investment decision avoided $535 million in losses – the difference between the TSE 299 and TSE 300 performance.

MANAGING RISK REDUCED LOSSES

(% cumulative nominal decline)



2001 INVESTMENT PERFORMANCE

The $5.6 billion we received in fiscal 2001 from the Canada Pension Plan was invested in Canadian and foreign equities. By year end, we had $7.2 billion in assets under management, of which 70 percent was invested in Canada and 30 percent in the United States, Europe and Asia.

Stock markets around the world finally corrected mid-way through our fiscal year after the longest and strongest rise in history. In fact, between September 2000 and March 2001 they experienced the worst six-month declines since 1974. For our full fiscal year, the markets in which we invested declined by 17.8 percent. By contrast, we ended the year with a negative total portfolio return of 9.4 percent for an $852 million net loss.

The $42 billion (at estimated market value) portfolio of bonds and money-market securities owned by the Canada Pension Plan earned approximately $3.8 billion in fiscal 2001. On a consolidated basis, the equity and fixed-income assets available to the Canada Pension Plan produced a positive return of approximately 7 percent.

Our results are discussed in the Investment Performance section of this report beginning on page 15.

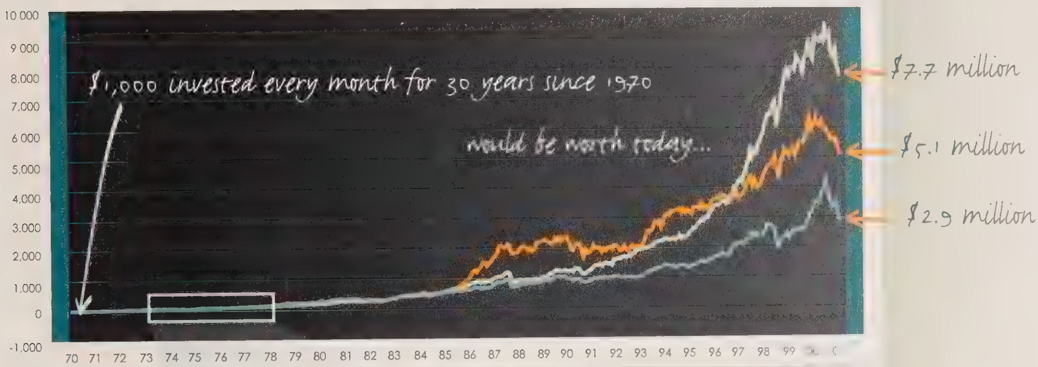
BUYING OPPORTUNITIES

Few investors take joy in declining markets. We were in the fortunate position of being able to put large and frequent cash inflows to work at more advantageous prices as the year progressed and acquire more shares for the same amount of money. This dollar cost averaging put us in a stronger position to benefit when markets recover. As a patient long-term investor we are not deterred by the severity of the recent market downturn that affected our short-term results.

Corrections followed by recoveries are the natural behaviour of equity markets, with five major corrections in the past 30 years. In 1973-74, for example, the TSE 300 Index declined steeply and took more than five years to fully recover, as the following chart

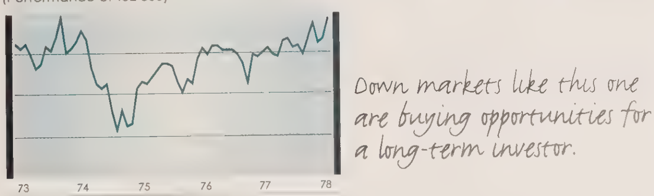
illustrates. Yet capital invested over the long-term grows at a compounded rate that more than compensates for a market correction even as harsh and as long as the one in 1973-74. We will see many more major corrections followed by recoveries as we invest to maximize our long-term returns.

LONG-TERM REGULAR INVESTING PAYS OFF
($ thousands)



Canadian equities (TSE 300 Index) U.S. equities (S&P 500 Index) International equities (MSCI EAFE Index)

SHORT-TERM MARKET CORRECTIONS ARE INEVITABLE
(Performance of TSE 300)



LOOKING AHEAD

So far we have invested only in publicly traded equities. In fiscal 2002, we will expand into private market investments. Over long time periods, private equity returns, particularly from merchant banking and venture capital, can be substantially higher than public equity returns. Private market investments fit well with our goal of long-term patient growth.

Initially, we plan to participate in private markets through limited partnerships or pooled funds by establishing ourselves as a preferred investor with a dozen or more of the best fund managers in the world. In fiscal 2002, we may commit up to $1.8 billion to private equities to be invested over five years. These investments should start to positively influence our total portfolio return toward the end of the initial five-year period. In the meantime, we will make further commitments on an annual basis. Our approach to investing in private market investments is discussed further on page 13.

Federal and provincial finance ministers are considering the removal of the remaining regulatory restrictions on our Canadian equities during fiscal 2002. This would give us the same flexibility to enhance returns and mitigate risks as other investors. However, index investing will remain a core strategy.

TELLING OUR STORY

Communicating with Canadians and other interested parties is a continuing priority. We accept our responsibility to explain to Canadians what we are doing with their money.

The public meetings held across Canada in January 2001, and discussed in the Report from the Chair, was one approach. We also communicate through our Web site and media interviews, and our executives and I make speeches and presentations throughout the year to a wide range of stakeholder audiences.

The CPP Investment Board is also attracting attention from other countries seeking solutions to their public pension challenges. Several groups from Europe, Asia and the United States have visited us. We believe we have a convincing story to share with them as well.

APPRECIATION

Thank you to my colleagues for joining the CPP Investment Board so that together we can build an effective investment organization to help secure the public pension promise.

Thank you to our directors for their support and guidance as we take on more complex and demanding investment challenges.

Thank you to Canadians who participated in our first public reporting tour in January 2001. There is nothing quite as refreshing as a citizen asking a question that cuts through the complexities and obtuse jargon of investing to get at a simple point – will we make money over the long term to help pay the Canada pension? The answer is 'yes' as will become evident with time.

J. A. MacNaughton

JOHN A. MACNAUGHTON
President and Chief Executive Officer

INVESTMENT MANAGEMENT FRAMEWORK

We have developed an investment management framework to translate our vision, mission and objectives into effective investment strategies. The framework will enable us to manage the risks and returns in the total portfolio to generate risk-adjusted net value added – that is, returns that compensate us adequately for the risks taken and costs incurred. The framework will capitalize on a broad range of asset classes and investment activities in Canadian and foreign public and private markets through both passive and active investing.

OUR INVESTMENT OBJECTIVES

Our legislation states two objectives:

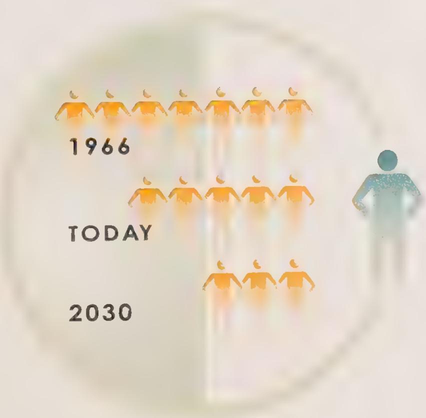
- to manage any amounts transferred from the Canada Pension Plan "in the best interests of the contributors and beneficiaries of the plan"; and
- "to invest its assets with a view to achieving a maximum rate of return, without undue risk of loss, having regard to the factors that may affect the funding of the Canada Pension Plan and the ability of the Canada Pension Plan to meet its financial obligations."

We are also required to develop, and review at least annually, a formal investment policy, known as the Statement of Investment Policies, Standards and Procedures. The statement addresses asset mix policy, asset diversification, expected investment returns, liquidity, the use of derivative products, asset valuation, and the exercise of proxy voting rights attached to share ownership.

THE CANADA PENSION PLAN

The Canada Pension Plan, which is administered by the federal government, was created in 1966 as a pay-as-you-go, rather than a fully funded, pension plan. In 1996, the federal and provincial finance ministers confirmed that the plan lacked sufficient assets to meet its long-term obligations. Given demographic trends, improved life expectancy, the need for inter-generational equity, and the rising cost of benefits, the ministers agreed to build the plan to a level where assets would represent 20 percent of liabilities and five years of pension benefits by 2017.

A MATURING PENSION PLAN



The number of potential contributors declining per pensioner.

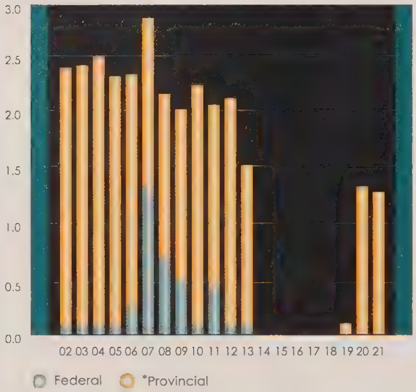
This funding target is designed to respond to the rapid maturing of the plan with a declining number of contributors to pensioners.

The plan's most recent actuarial report in December 1997 calculated the present value of accrued pension benefits at $465 billion. The plan's $36.5 billion in assets (valued at cost) at that time were approximately 8 percent of liabilities.

To achieve the 20 percent funding level, the finance ministers agreed to phase in contribution increases to reach 9.9 percent of pensionable earnings by 2003 and keep them at that level indefinitely.

The actuarial report assumed that excess funds not needed to pay current pensions would earn a 4 percent real rate of return (that is, above inflation) to keep the Canada Pension Plan in a steady-state funding status after 2003. With inflation projected in the actuarial report at 3 percent annually, the nominal investment objective assumed by the Chief Actuary for the CPP Investment Board is 7 percent.

GOVERNMENT BOND PORTFOLIO
SUMMARY BY MATURITIES
Based on fiscal years ended March 31 ($ billions)



*Includes approximately $4 million of territorial bonds

The government bond portfolio and cash reserves earned approximately $3.8 billion in fiscal 2001.

GOVERNMENT BOND PORTFOLIO

The Canada Pension Plan owns a bond portfolio consisting of 20-year loans to the federal and provincial governments. The portfolio is managed by the Department of Finance Canada. Each province has the option to roll over its bonds for one further 20-year term and can redeem its bonds before maturity. The proceeds from bonds not rolled over or redeemed are transferred to the CPP Investment Board, unless needed by the Canada Pension Plan. In fiscal 2001, $2.0 billion of bonds matured and $1.3 billion was renewed for a further 20 years.

ADDRESSING RISK/REWARD TRADEOFFS

In developing our investment management framework, we analyzed risk/return tradeoffs by identifying our risk-free performance base, risk tolerance, and long-term required return.

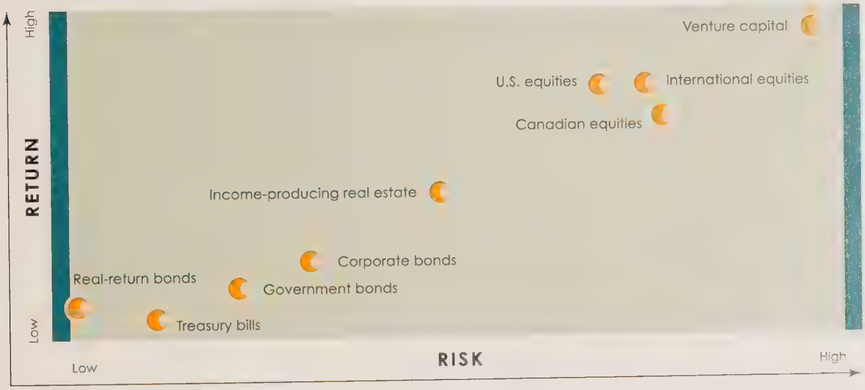
Because Canada Pension Plan benefits are indexed to inflation, an asset that is risk-free with respect to inflation, such as real-return bonds, would be ideal if it paid the rate of return needed to keep the plan in a "steady state" funding position. An index of such risk-free assets is an ideal base from which to measure the incremental return we ought to generate for the extra risk taken. Such an index exists: the Scotia Capital Real Return Bond Index.

But what should be our risk tolerance? Many Canadians are not comfortable with the CPP Investment Board assuming "too much" risk. On the other hand, our 20-year investment horizon and large cash inflows from the Canada Pension Plan mean we can assume higher risk than an investor with a short-term need for both cash income and ready access to the invested capital.

From historical data we can quantify, monitor and manage the risk for different asset classes. We can estimate, for example, how the consolidated assets (equities, bonds and short-term money market securities) available to the Canada Pension Plan might perform relative to an equivalent-sized portfolio of risk-free bonds.

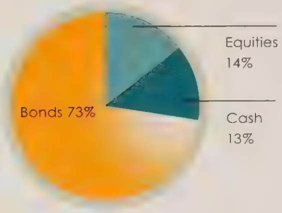
The following chart schematically shows the risk/return relationship for different asset classes. Real-return bonds are risk free because they guarantee a return above inflation. Venture capital is the most risky.

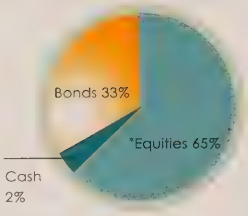
RELATIVE RISK / RETURN OF ASSET CLASSES



As a rule, the more risk you assume, the greater the potential rewards.

We have established a maximum risk tolerance ceiling for our equity portfolio to help determine the level of returns needed over the long haul to support the pension promise to Canadians. Our required real rate of return is measured above the risk-free performance base (the Scotia Capital Real Return Bond Index). At the start of fiscal 2002, our long-term minimum required real return was 5.2 percent, compared with the 4.0 percent real return assumption of the Chief Actuary.





*Includes real estate

ASSET MIX POLICY

A key decision affecting long-term returns is the allocation of funds between equities and fixed-income securities. In developing our asset mix policy, we take into consideration the Canada Pension Plan's bond portfolio and cash operating reserve.

On December 18, 1998 our directors adopted a policy of investing all cash inflows in equities to offset the dominance of the Canada Pension Plan's fixed-income securities and to diversify the assets available to the plan.

At the end of fiscal 2001, the equities held by the CPP Investment Board represented about 14 percent of the assets available to the Canada Pension Plan. If we continue to invest all cash flows in equities, they could constitute half the total available assets by the end of fiscal 2005 – still well below the equity allocation of most large public sector pension funds today.

INVESTMENT POLICY IMPLEMENTATION

Since inception, we have retained two fund managers to implement our investment policy by replicating pre-determined stock market indices. This is known as passive investing. Active investing involves decisions to add value above index returns or to reduce risk (as we did in fiscal 2001).

Our Canadian stock index fund mirrors the Toronto Stock Exchange 300 Composite Index, which represents about 87 percent of Canadian based companies listed on the TSE. Companies are selected for inclusion in the index by a committee of the Toronto Stock Exchange and Standard & Poor's, a New York-based company.

Our foreign equity index funds are the Standard & Poor's 500 Index of large companies in the United States and the MSCI EAFE Index of about 900 companies in Europe, Australia, New Zealand and the Far East. Companies are selected for inclusion in the EAFE index by the New York investment firm Morgan Stanley Capital International Inc. Both indices represent 73 percent of the combined market capitalization of 21 countries.

OUR EXPANSION INTO PRIVATE MARKET INVESTMENTS

To do better than equity index funds, we will actively manage a larger portion of assets and expand into private market investments in fiscal 2002.

Private market investments can take time to generate satisfactory returns. Lower returns and even losses are possible in the initial years, with gains appearing in later years. Structured appropriately, private market investments offer a superior risk-adjusted return over public equities and fixed-income securities. Our private equity target is to exceed the rate of inflation by 8 percentage points over a 10-year period.

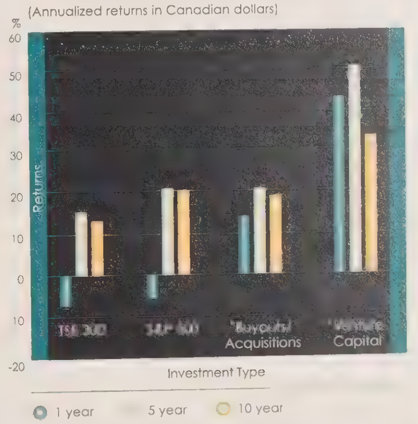
Private market investments include providing venture capital to early-stage companies, merchant banking investments in established companies with growth and expansion potential, and participation in corporate buyouts and acquisitions. Other private market investments include ownership in income-producing real estate properties or real estate companies, infrastructure projects, oil and gas properties, electrical power projects, and ownership interests in natural resources, such as mineral ore bodies and timberlands.

Our first priority is to invest in venture capital and buyout/acquisition opportunities. Real estate and infrastructure investments will be considered later in fiscal 2002 and direct investments in natural resources during fiscal 2003.

In fiscal 2002 we will invest in pooled funds, fund managers and merchant banks. We intend to form close relationships with these organizations as a preferred investor. We anticipate forming as many as 15 partner-like relationships in Canada, the United States and Europe, structured to achieve diversification by industry, geographic market, style of investing, and stage of maturity of the investee companies.

We may commit up to $1.8 billion to private equities to be invested over the next five years, for an investment of up to 10 percent of total assets.

PRIVATE EQUITIES VS. PUBLIC EQUITIES
(Annualized returns in Canadian dollars)



*Based on U.S. data as long-term Canadian data is not available

Over the long term private market investments should substantially outperform public equities.

PUBLIC EQUITY OPPORTUNITIES

We will enhance the returns from our equity index funds by, for example, taking advantage of extreme market under or over valuations, changes in the direction of the economy, and changes in interest rates. A variety of investment styles will be considered, including the active selection of individual stocks and the use of derivative products and currency management techniques.

TRANSITION TO DIVERSITY

The move from low-cost and efficient index investing to more complex strategies and asset classes will occur gradually. We are prepared to tolerate disappointing short-term returns since we are confident that the desired returns will materialize over the long term from private market investments, active investing in publicly traded securities and other asset classes, and alternative investment strategies.

RISK MANAGEMENT POLICIES

We have an enterprise-wide approach to risk management. Responsibility for specific risks is assigned to each committee of the board of directors with clear management accountability to those committees. The board has approved policies and procedures to manage and mitigate the organization's risks. Management is responsible for procedures, guidelines and other internal controls to address risks.

An annual audited report on internal control procedures is presented to the Audit Committee and the Investment Committee.

With respect to our investment activities, the goal of risk management is to avoid undue risk and to make sure we are compensated properly for risks taken. We measure investment risks for the total portfolio and attribute these risks to various elements of the total portfolio so that we can manage them and explain the reasons for material risk changes.

PROXY VOTING

Owning corporate shares provides the right to vote on management and shareholder proposals that could affect equity values. As a result, thoughtful voting can impact portfolio performance. Proxy voting rights have been delegated to our fund managers, who vote in accordance with policies and guidelines we have approved. They provide us with an annual report on how they did vote. In certain circumstances, we may exercise voting powers ourselves. As we become established, we will develop a strategy for creating value through thoughtful corporate governance initiatives.

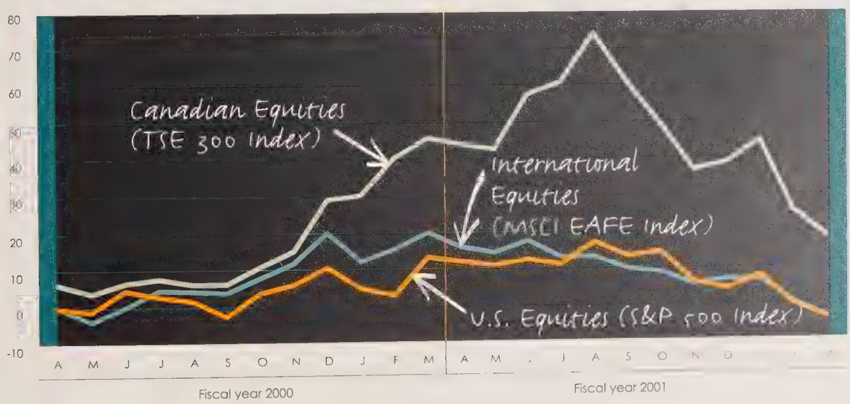
INVESTMENT PERFORMANCE

In fiscal 2001, we received $5.6 billion from the Canada Pension Plan and invested all of it in the shares of publicly traded companies. By year end, our portfolio was approximately 70 percent Canadian equities and 30 percent foreign equities.

MARKET OVERVIEW

The stock market correction that arrived mid-way through our fiscal year followed the excessive run-up in equity valuations, especially in technology stocks, during the 1990s. Many investors became "excessively exuberant" about companies involved in technological breakthroughs and new internet-based services that were beginning to re-shape and energize the global economy. Technology did in fact deliver impressive gains in productivity, especially in the United States, and accelerated economic growth. The trend to freer world trade and the convergence of corporations at the global level fed the euphoria and ever-rising equity valuations.

TWO YEAR PERFORMANCE OF MAJOR MARKETS
(% cumulative nominal return)



Stock markets corrected halfway through our most recent fiscal year

The steepness and suddenness of the decline in equity values was not surprising after the strongest bull market in history. It also represented an opportunity for us to acquire equities at more reasonable prices. Market corrections are a natural behavioral pattern for equity markets. While they can be severe in the short term, they have limited negative impact over the long term for a large cash-positive investor putting funds into the market on a continuous basis.

CANADIAN EQUITY INVESTMENTS

During the first six months of fiscal 2001, our Canadian equities were restricted to passive investing. Since our inception, a federal regulation required us to substantially

replicate the composition of one or more broad market indices for investing in Canadian equities. We selected the TSE 300 Index of the Toronto Stock Exchange as the most diversified Canadian market index available.

In August 2000, the regulation was relaxed as the result of our request to the federal and provincial finance ministers. We can presently invest actively up to 50 percent of the assets we allocate to Canadian equities.

Following the regulatory change we implemented a risk management initiative to reduce our exposure to the heavy concentration of Nortel Networks in the TSE 300. By year end, we had reduced our maximum concentration in Nortel to approximately 4 percent and avoided about $535 million in losses.

TOP 20 CANADIAN SECURITIES AS AT MARCH 31, 2001

Security name	Fair value ($ millions)
Nortel Networks Corporation	289.9
BCE Inc.	212.3
Royal Bank of Canada	211.7
The Toronto-Dominion Bank	180.4
Bombardier Inc., Class “B” SV	161.5
Bank of Montreal	151.4
The Bank of Nova Scotia	147.2
Manulife Financial Corporation	146.2
Canadian Imperial Bank of Commerce	138.3
Alcan Inc.	132.2
Canadian Pacific Limited	131.4

Security name	Fair value ($ millions)
Sun Life Financial Services of Canada Inc.	93.9
Canadian National Railway Company	83.0
Alberta Energy Company Ltd.	76.4
Petro-Canada	70.7
TransCanada PipeLines Limited	66.8
Suncor Energy Inc.	65.7
The Thomson Corporation	65.0
Barrick Gold Corporation	64.5
Talisman Energy Inc.	57.3

Canadian equity holdings are shares held directly and through mutual and pooled funds.

FOREIGN EQUITY INVESTMENTS

Outside Canada, our regulations permit us to invest actively or passively in any asset class. Our current policy is to invest in equity index funds that provide wide exposure to hundreds of companies in the United States, Europe and Asia.

We are required to adhere to the foreign property limit set by the federal government for pension funds and registered retirement savings plans. In February 2000, the government announced the limit would increase from 20 percent of assets (at cost) to 25 percent in calendar 2000 and 30 percent in calendar 2001.

We increased our portfolio's foreign content to the maximum permitted and ended fiscal 2001 with 70.1 percent of assets at cost invested in Canada and 29.9 percent in foreign securities, compared with 80.3 percent and 19.7 percent respectively a year earlier. On a market value basis, Canadian assets were 70.2 percent versus 81.7 percent a year earlier, and foreign assets were 29.8 percent compared with 18.3 percent in fiscal 2000.

Our policy of not hedging foreign currency generated additional gains as the Canadian dollar weakened during the year relative to the U.S. dollar. At year end, 15 percent of the total portfolio was invested in U.S. securities and 15 percent in international assets.

TOP 10 FOREIGN SECURITIES AS AT MARCH 31, 2001

($ in Canadian dollar equivalent)

Security name	Fair value ($ millions)	Country
General Electric Company	42.6	US
Microsoft Corporation	30.0	US
Exxon Mobil Corporation	29.0	US
Pfizer Inc.	26.5	US
BP Amoco PLC	25.6	UK
Vodafone Group PLC	24.2	UK
Citigroup INC	23.2	US
Wal-Mart Stores Inc.	23.2	US
GlaxoSmithKline PLC	22.3	UK
American International Group Inc.	19.3	US

Foreign equity holdings are shares held through pooled funds.

PERFORMANCE OBJECTIVES AND MEASUREMENTS

We believe that a variety of metrics over short, medium and long periods are necessary to provide a basis for making an informed judgment on performance. Currently, we compare our actual performance with:

- Our required return (discussed on page 10);
- The assumption of the Chief Actuary (page 10); and
- The total portfolio composite benchmark return, which aggregates various asset class indices according to their weight in our asset mix policy.

We calculate annual, medium and long-term rates of return for our total portfolio at least monthly, time weighted to conform with the standards of the Association for Investment Management and Research.

FISCAL 2001 RATES OF RETURN

In fiscal 2001, our total portfolio had a rate of return of minus 9.4 percent, compared with a positive 40.1 percent a year earlier. We have earned a 14.8 percent annualized return since making our first investment in March 1999. However, we incurred a net dollar loss over the period because the positive rate of return applied to a much smaller capital base in fiscal 2000 than the negative return impacted in fiscal 2001.

%	Fiscal year 2001	Fiscal year 2000	Annualized Since Inception
ACTUAL RESULTS			
Canadian equities	(7.7)	45.3	17.9
Foreign equities	(17.5)	16.6	0.7
Total portfolio	(9.4)	40.1	14.8
BENCHMARK RESULTS			
Canadian equities	(18.6)	45.5	10.9
Foreign equities	(18.2)	16.1	(0.4)
Total portfolio	(17.8)	39.3	9.1
Chief actuary's assumption	6.6	7.1	6.9
Long-term required return	7.9	8.9	8.5

FINANCIAL RESULTS

We received $5.6 billion in cash from the Canada Pension Plan in fiscal 2001 compared with $1.9 billion in the previous year.

The market value of investments at March 31, 2001 was $7.2 billion, of which $5 billion was invested in Canadian markets and the remainder in foreign markets. Our equity assets on March 31, 2001 represented almost 14 percent of the consolidated assets available to the Canada Pension Plan, including the plan's $42 billion (at estimated market value) fixed-income portfolio.

The net loss from operations was $852 million, compared with net income of $460 million in the prior year. Investment income consists of dividends, interest, distributions from pooled and mutual funds, and both realized and unrealized capital gains and losses. More than 90 percent of the fiscal 2001 loss occurred in our fourth quarter (January to March).

The fixed-income portfolio owned by the Canada Pension Plan earned an estimated $3.8 billion in fiscal 2001.

OPERATING EXPENSES

The CPP Investment Board incurred expenses of $6.7 million during the fiscal year, compared with $3.7 million in fiscal 2000. These expenses were approximately 11.7 basis points (or roughly 12 cents per $100 of invested assets) in fiscal 2001, compared with approximately 31.5 basis points in the prior year.

The dollar increase reflected the hiring of new staff as well as increased fees for external investment management, professional, consulting, and custodial services as our asset base and operations expanded. Investment management and administrative expenses will continue to rise in dollar terms as we increase our human resources and form partner-like relationships with external fund managers to implement a diversified investment strategy. These expenses will decline, however, as a percentage of assets. Our ongoing goal is to maximize net investment returns (i.e. after expenses) through organizational and operating efficiencies.

Investment income and administrative expenses are discussed further in note 8 to the financial statements commencing on page 24.

OUTLOOK

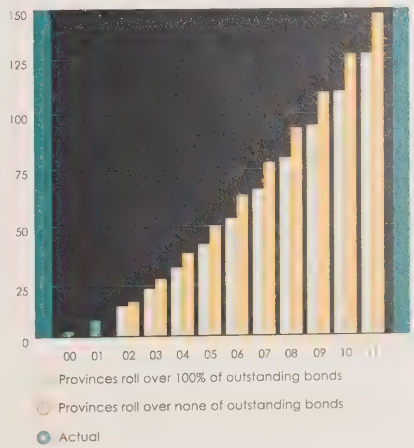
We expect our assets to grow steadily in the years ahead. During the next 10 years alone, the CPP Investment Board expects to receive $80 billion in cash from the Canada Pension Plan. The value of assets under our management is expected to exceed $130 billion by 2011.

Over the long term, we are confident that the total portfolio will produce returns that will meet or exceed those expected by the Chief Actuary and our long-term return target.

In looking to the future, we assume that public equity markets will remain volatile and that the level of returns during the next decade will be lower on an annualized basis than those achieved in the 1990s.

We also recognize that a faster pace of change, driven by technology and the integration of global capital markets, will demand innovation and flexibility to adapt to and take advantage of opportunities.

PROJECTED GROWTH IN ASSETS
($ billions) Based on fiscal years ended March 31



We expect to be managing a ... worth more than $130 billion in 10 years.

GOVERNANCE

Governance practices by corporations and institutions continue to gain public prominence. Recent concerns include trading practices to influence the market price of securities, conflicts between the private interests of executives and their fiduciary obligations to others, selective disclosure of material information, executive compensation relative to corporate performance, and the effective management of financial, business and organizational risks.

To be effective, governance policies, procedures and practices must be part of a dynamic process involving regular review, clarification and enforcement.

OUR DISTINGUISHING FEATURES

Our governance is shaped by four features:

- we operate at arm's length from governments;
- we are solely an investment organization with no responsibility for administering the Canada Pension Plan;
- we focus on maximizing investment returns on the cash received from the Canada Pension Plan without undue risk of loss; and
- we report publicly through quarterly financial statements, an annual report, and public meetings in every participating province at least once every two years.

OUR RELATIONSHIP TO GOVERNMENTS

Independence from governments in making investment decisions is critical to our success and public confidence. We are a crown corporation created by federal legislation in 1997, and our investment and governance mandates are set out in the Canada Pension Plan Investment Board Act and related regulations.

The Canada Pension Plan is administered by the federal government. As joint stewards of the plan, the federal and provincial governments together set contribution rates, benefit levels and funding policy.

With respect to the CPP Investment Board, the federal and provincial finance ministers discuss changes to our legislation and regulations as part of their triennial review of the Canada Pension Plan. At their review in December 1999, they relaxed a restriction on our ability to invest in Canadian equities.

The federal finance minister, in consultation with the participating provinces, appoints our directors and is required to initiate a special examination of our financial and management control and information systems, and management practices, at least once every six years.

ARM'S LENGTH PROCESS FOR APPOINTING DIRECTORS

Good governance requires knowledgeable directors who understand their fiduciary duties, are not afraid to ask difficult questions, and are not beholden to those who nominate and appoint them.

Each government has one representative on a nominating committee of public officials and business leaders, with a private sector executive in the chair. The committee recommends candidates for appointment and re-appointment by the federal finance minister in consultation with provincial finance ministers. The founding directors were appointed in October 1998 and at that time our Chair was selected in consultation with the provinces and the directors.

Our legislation states that it is desirable to have sufficient directors with proven financial ability or work experience relevant to the goal of optimizing investment returns. As a result, the nominating committee recommended directors who predominantly have expertise in investment, business, economics and financial management.

EXPECTATIONS OF DIRECTORS

The directors are responsible for investment policies, standards and procedures, appointing an independent auditor, approving procedures to identify and resolve conflicts of interest, approving codes of conduct for directors, officers and employees, and monitoring and assessing management's performance. The board has a process for evaluating itself and is exploring the benefits and effectiveness of a peer-review process.

FOCUSING BOARD ACTIVITIES

Board work is assigned to committees, with recommendations referred to the full board for approval.

The Investment Committee consists of the full board because investing is the organization's raison d'être. In fiscal 2001, the committee reviewed and approved management's strategy to diversify risk and enhance returns by moving from passive to active investing. The committee duties include approving total portfolio investment policies and approving the engagement of external fund managers and asset custodians.

In fiscal 2001, the Audit Committee reviewed with management an enterprise-wide risk management framework that identified risks, established policies and procedures to mitigate them, and clarified the responsibilities of board committees and management for risk management. The Audit Committee also reviewed financial reporting and internal control policies and practices.

As we continue to hire senior staff, we will be recruiting successful individuals who may also have an important part of their net worth invested in capital markets. This raises challenges for our Human Resources and Compensation Committee in devising a competitive compensation policy to attract the best talents. It also raises challenges for our Governance Committee in dealing with real and potential conflicts between the personal investments of employees and their fiduciary duty to the CPP Investment Board. We believe the policies we have in place will serve us for the foreseeable future.

The Human Resources and Compensation Committee also completed an evaluation of the President and Chief Executive Officer's performance, and continues to monitor succession planning and organizational structure.

The Governance Committee's additional duties include recommending changes in our governance policy, guidelines, procedures and practices; making recommendations on the board's effectiveness; and monitoring the application of the code of conduct and conflict of interest guidelines for directors.

STRIVING FOR BEST GOVERNANCE PRACTICES

We measure our policies and procedures against our legislation and regulations and external guidelines.

Legislative and regulatory requirements are included in a system of internal controls that is reviewed annually by the external auditors.

We comply with the governance guidelines of the Toronto Stock Exchange for public companies, with the exception of the requirement for a board nominating committee as this is the responsibility of the committee appointed by the finance ministers.

We also comply with the governance principles developed by a task force of the Association of Canadian Pension Management, the Pension Investment Association of Canada, and Office of the Superintendent of Financial Institutions, with the exception of the qualifications for plan administrators as we have no plan administration duties.

SETTING HIGH STANDARDS OF CONDUCT

Directors, officers and employees acknowledge annually in writing our codes of conduct that are designed to create a corporate culture of trust, honesty and integrity. The codes deal with such matters as relations with suppliers, personal investments, the acceptance of gifts, the use and disclosure of information, representation on organizations and associations and confidentiality of third-party proprietary information.

MANAGING CONFLICTS OF INTEREST

We maintain strict conflict of interest procedures for directors, officers and employees to resolve potential conflicts between their private and business interests and the interests of the CPP Investment Board.

Officers and employees file quarterly with our external auditor a statement of the investments they hold and a report on transactions. During restricted trading periods, before making a trade, they notify our compliance officer to determine whether the securities in question are on our restricted list of securities. The pre-clearance requirement applies to securities in which officers and employees have a beneficial interest or over which they exercise direction or control. In certain cases they are not allowed to buy or sell securities on the restricted list.

Officers and employees disclose the identity of their investment agents, companies of which they are a director or employee, and trusts of which they are a trustee.

Directors complete and submit an annual disclosure of interest report for review by the Governance Committee and must notify the Chair before accepting a directorship or any position of authority in an entity that might benefit from, or be in conflict with, the CPP Investment Board.

BOARD OF DIRECTORS

CHAIRPERSON

GAIL COOK-BENNETT
Ontario
Economist; Former university professor and business executive.

MARY C. ARNOLD
Alberta
Chartered accountant; Senior member of Arnold Consulting Group Ltd.

DALE G. PARKER
British Columbia
Corporate director; Former president and CEO of Workers' Compensation Board of British Columbia

GILBERT GILL
Newfoundland
Chartered Accountant; Former Deputy Minister of Finance for the Government of Newfoundland and Labrador.

M. JOSEPH REGAN
Ontario
Retired; Former Senior Executive Vice-President of the Royal Bank of Canada.

MONIQUE LEROUX
Quebec
Financial executive; Senior Executive Vice-President and Chief Operating Officer of Quebecor Inc.

HELEN SINCLAIR
Ontario
Financial executive; Founder and Chief Executive Officer of BankWorks Trading Inc

JACOB LEVI
British Columbia
Actuary; Partner in Eckler Partners, actuarial consultants.

RICHARD M. THOMSON
Ontario
Retired; Former Chairman and CEO of the Toronto Dominion Bank.

HELEN M. MEYER
Ontario
Financial executive; President of Meyer Corporate Valuation Limited.

DAVID WALKER
Manitoba
President of West-Can Consultants Ltd.; Former Member of Parliament

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Canada Pension Plan Investment Board ("CPP Investment Board") have been prepared by management and approved by the Board of Directors. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Management is responsible for the contents of the financial statements and the financial information contained within the annual report.

The CPP Investment Board maintains records and develops and maintains systems of internal control and supporting procedures to provide reasonable assurance that the CPP Investment Board's assets are safeguarded and controlled and that transactions are in accordance with the *Canada Pension Plan Investment Board Act*, the accompanying regulations, the by-laws, and the Statement of Investment Policies, Standards and Procedures.

The Audit Committee assists the Board of Directors in discharging its responsibility to approve the annual financial statements. The Committee meets regularly with both management and the external auditors to discuss the scope and findings of audits and other work that the external auditors may be requested to perform from time to time, to review financial information, and to discuss the adequacy of internal controls. The Committee reviews and approves the annual financial statements and recommends them to the Board of Directors for approval.

The CPP Investment Board's external auditors, Deloitte & Touche LLP, have conducted an independent examination of the financial statements in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express an opinion in their Auditors' Report. The external auditors have full and unrestricted access to management and the Audit Committee to discuss any findings related to the integrity of the CPP Investment Board's financial reporting and the adequacy of internal control systems.

JOHN A. MACNAUGHTON
President and Chief Executive Officer

JANE NYMAN
Vice President – Finance and Operations

INVESTMENT CERTIFICATE

The *Canada Pension Plan Investment Board Act* (the "Act") requires that a certificate be signed by a director on behalf of the Board of Directors, stating that the investments of the CPP Investment Board held during the year were in accordance with the Act and the CPP Investment Board's investment policies, standards and procedures. Accordingly, the Investment Certificate follows.

The investments of the CPP Investment Board, held during the year ended March 31, 2001, were in accordance with the *Canada Pension Plan Investment Board Act* and the CPP Investment Board's Statement of Investment Policies, Standards and Procedures.

Mary C. Arnold

MARY C. ARNOLD

Chair of the Audit Committee on behalf of the Board of Directors, June 6, 2001

AUDITORS' REPORT

TO THE BOARD OF DIRECTORS

We have audited the balance sheet and the statement of investment portfolio of the Canada Pension Plan Investment Board (the "CPP Investment Board") as at March 31, 2001 and the statements of income/(loss) and accumulated net income/(loss) from operations and of changes in net assets for the year then ended. These financial statements are the responsibility of the CPP Investment Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the CPP Investment Board and the investments held as at March 31, 2001 and the results of its operations and changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

Further, in our opinion, the transactions of the CPP Investment Board that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with the *Canada Pension Plan Investment Board Act* (the "Act") and the by-laws.

Further, in our opinion, the record of investments kept by the CPP Investment Board's management pursuant to paragraph 39(1)(c) of the Act fairly presents, in all material respects, the information required by the Act.

Deloitte & Touche LLP

CHARTERED ACCOUNTANTS

Toronto, Ontario, May 18, 2001

BALANCE SHEET

March 31, 2001 ($ 000's)	**2001**	2000
ASSETS		
Investments (Note 2)		
Canadian equities	**$ 5,024,457**	$ 1,954,372
Non-Canadian equities	**2,130,419**	438,389
TOTAL INVESTMENTS	**7,154,876**	2,392,761
Cash and short-term investments	**546**	1,022
Other assets (Note 3)	**921**	1,080
TOTAL ASSETS	**7,156,343**	2,394,863
LIABILITIES		
Accounts payable and accrued liabilities (Note 4)	**2,174**	3,070
TOTAL LIABILITIES	**2,174**	3,070
NET ASSETS	**$ 7,154,169**	$ 2,391,793
NET ASSETS, REPRESENTED BY		
Share capital (Note 5)	**$ —**	$ —
Accumulated net income/(loss) from operations	**(391,252)**	460,338
Canada Pension Plan transfers (Note 6)	**7,545,421**	1,931,455
NET ASSETS	**$ 7,154,169**	$ 2,391,793

On behalf of the Board of Directors:

Mary C. Arnold

MARY C. ARNOLD
Chair of the Audit Committee

M. JOSEPH REGAN
Director, Member of the Audit Committee

STATEMENT OF INCOME / (LOSS) AND ACCUMULATED NET INCOME / (LOSS) FROM OPERATIONS

Year ended March 31, 2001 ($ 000's)	2001	2000
INVESTMENT INCOME / (LOSS) (Note 7)		
Canadian equities	$ (532,109)	$ 424,603
Non-Canadian equities	(312,746)	39,183
	(844,855)	463,786
INVESTMENT AND ADMINISTRATIVE EXPENSES (Note 8)		
Operating expenses	2,279	1,450
Salaries and benefits	1,963	1,003
External investment management fees	1,535	342
Professional and consulting fees	958	855
	6,735	3,650
NET INCOME/ (LOSS) FROM OPERATIONS	(851,590)	460,136
ACCUMULATED NET INCOME FROM OPERATIONS, BEGINNING OF YEAR	460,338	202
ACCUMULATED NET INCOME / (LOSS) FROM OPERATIONS, END OF YEAR	$ (391,252)	$ 460,338

STATEMENT OF CHANGES IN NET ASSETS

Year ended March 31, 2001 ($ 000's)	2001	2000
NET ASSETS, BEGINNING OF YEAR	$ 2,391,793	$ 12,144
CHANGES IN NET ASSETS		
Canada Pension Plan transfers (Note 6)	5,613,966	1,919,513
Net income / (loss) from operations	(851,590)	460,136
INCREASE IN NET ASSETS FOR THE YEAR	4,762,376	2,379,649
NET ASSETS, END OF YEAR	$ 7,154,169	$ 2,391,793

March 31, 2001 *($ 000's)*	*Fair Value of Investments* 2001	2000	*% of Portfolio* 2001	2000
CANADIAN EQUITIES (Note 2)				
Canadian Equities – TSE 300				
(Combination of index funds and direct security investments that substantially replicate the TSE 300)	**$ 3,057,054**	$ 1,954,372	**42.7%**	81.7%
Other Canadian Equities				
(Diversified portfolio of pooled fund and direct security investments (Note 2))	**1,967,403**	—	**27.5%**	0.0%
TOTAL CANADIAN EQUITIES				
(Cost 2001 – $5,635,082; 2000 – $1,633,029)	**5,024,457**	1,954,372	**70.2%**	81.7%
NON-CANADIAN EQUITIES (Note 2)				
US Equity Index Fund – S&P 500	**1,069,852**	219,956	**15.0%**	9.2%
EAFE Equity Index Fund	**1,060,567**	218,433	**14.8%**	9.1%
TOTAL NON-CANADIAN EQUITIES				
(Cost 2001 – $2,407,243; 2000 – $400,185)	**2,130,419**	438,389	**29.8%**	18.3%
TOTAL INVESTMENTS	**$ 7,154,876**	$ 2,392,761	**100.0%**	100.0%

ORGANIZATION

The Canada Pension Plan Investment Board (the "CPP Investment Board") was formed pursuant to the *Canada Pension Plan Investment Board Act* (the "Act"). The CPP Investment Board is responsible for managing amounts that are transferred to it under Section 111 of the *Canada Pension Plan* in the best interests of the beneficiaries and contributors under that Act. The amounts are to be invested with a view to achieving a maximum rate of return, without undue risk of loss, having regard to the factors that may affect the funding of the Canada Pension Plan (the "CPP") and the ability of the CPP to meet its financial obligations.

The CPP Investment Board has a fiscal year end of March 31.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF PRESENTATION

These financial statements present the financial position and operations of the CPP Investment Board as a separate legal entity, and therefore include only a portion of the assets (as described in Note 2) and none of the pension liabilities of the CPP. The statements have been prepared in accordance with Canadian generally accepted accounting principles and the requirements of the Act and the accompanying regulations.

(B) VALUATION OF INVESTMENTS

Investments are recorded as of the trade date and are stated at fair value. Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Market prices for securities and unit values for pooled and mutual funds are used to represent fair value for the investments. Unit values reflect the quoted market prices of the underlying securities. Short-term investments are valued at cost plus accrued income, which approximates fair value.

(C) INCOME RECOGNITION

Investment income is recorded on the accrual basis and represents realized gains and losses on disposal or transfer of investments, unrealized gains and losses on investments held at the end of the year, dividend income, interest income, and distributions from mutual and pooled funds.

Realized gains and losses on investments sold during the year represent the difference between sale proceeds and cost, less related costs of disposition. Unrealized gains and losses represent the change in the difference between fair value and cost of investments at the beginning and end of each year.

(D) TRANSLATION OF FOREIGN CURRENCIES

Transactions in foreign currencies are recorded at the rates of exchange on the transaction date. Investments denominated in foreign currencies and held at the year end are translated at exchange rates in effect at the year end date. The resulting realized and unrealized gains and losses are included in investment income.

(E) CANADA PENSION PLAN TRANSFERS

Amounts received from the CPP are recorded on a cash basis.

(F) INCOME TAXES

The CPP Investment Board is exempt from Part I tax under paragraph 149(1)(d) of the *Income Tax Act (Canada)* on the basis that all of the shares of the CPP Investment Board are owned by Her Majesty in right of Canada.

(G) USE OF ESTIMATES

In preparing these financial statements, management must make certain estimates and assumptions which can affect the reported values of assets and liabilities, related income and expenses and note disclosures. Actual results could differ from these estimates.

2. INVESTMENTS

The statement of investment portfolio provides detailed information on the investments held as at March 31, 2001.

(A) INVESTMENT POLICY

The CPP Investment Board has established a Statement of Investment Policies, Standards and Procedures (the "Investment Policy") which sets out the manner in which assets shall be invested. In determining the asset mix, the CPP Investment Board must take into consideration certain assets of the CPP which are held outside of the CPP Investment Board. As at March 31, 2001, these assets totalled approximately $36.0 billion (at cost) and consisted primarily of government debt obligations. As a result, and in accordance with the Investment Policy, 100% of the CPP Investment Board's investments are allocated to equities, with at least 70% of the book value allocated to Canadian equities and the remainder to non-Canadian equities.

The regulations governing the CPP Investment Board allow the active management of up to 50% of Canadian equities, on a book value basis. The regulations restrict the remaining investments in Canadian equities to substantially replicate the composition of one or more broad market indices. As at March 31, 2001, approximately 64% of Canadian equity investments, on a book value basis, substantially replicated the Toronto Stock Exchange 300 Composite Index.

Under the terms of the Investment Policy, investments in non-Canadian equities should substantially replicate broad market indices. Non-Canadian investments are held in funds that substantially replicate the Morgan Stanley Capital International ("MSCI") EAFE Index and the Standard & Poor's ("S&P") 500 Index. Investments are not hedged against changes in foreign currency exchange rates.

(B) DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are financial contracts, the value of which is derived from the value of underlying assets, interest rates or exchange rates.

As outlined in the Investment Policy, certain derivatives may be used to achieve market exposure by replicating direct investments in a relevant equity index, provided that the derivatives are not used to create leverage. The mutual and pooled funds in which the CPP Investment Board owns units are permitted to, and may from time to time, use derivatives subject to this constraint. Other than through such funds, the CPP Investment Board has not directly entered into derivative contracts during the year ended March 31, 2001.

(C) FOREIGN CURRENCY EXPOSURE

The CPP Investment Board is exposed to currency risk through holdings of units in pooled funds of non-Canadian equities where investment values will fluctuate due to changes in foreign exchange rates. The underlying currency exposures by geographical area as at March 31, 2001 were as follows:

($ 000's)	**2001**		2000	
Country/Region	**Fair Value**	**% of Total**	Fair Value	% of Total
United States	**$ 1,069,852**	**50%**	$ 219,956	50%
Europe	**743,059**	**35%**	145,796	34%
Far East	**287,063**	**14%**	67,454	15%
Australia and New Zealand	**30,445**	**1%**	5,183	1%
	$ 2,130,419	**100%**	$ 438,389	100%

In accordance with the Investment Policy, foreign currency exposures are not hedged.

3. OTHER ASSETS

Other assets consisted of the following:

($ 000's)	**2001**	2000
Pending trades	**$ —**	$ 533
Dividends receivable	**493**	384
Fixed assets	**261**	141
Other assets	**167**	22
	$ 921	$ 1,080

4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following:

($ 000's)	**2001**	2000
Pending trades	**$ —**	$ 1,801
Other accounts payable and accrued liabilities	**2,174**	1,269
	$ 2,174	$ 3,070

5. SHARE CAPITAL

The issued and authorized share capital of the CPP Investment Board is $100 divided into 10 shares having a par value of $10 each. The shares are owned by Her Majesty in right of Canada.

6. CANADA PENSION PLAN TRANSFERS

Section 111 of the *Canada Pension Plan* provides for the transfer to the CPP Investment Board of funds not required by the CPP to pay current pensions. These funds come from both employer and employee contributions to the CPP, as well as from the proceeds of maturing and redeemed government bonds held in a portfolio administered by the federal government. During the year, a total of $5,613,966,000 (2000 – $1,919,513,000) was transferred to the CPP Investment Board. Since the CPP Investment Board's inception, $7,545,421,000 has been received from the CPP.

7. INVESTMENT INCOME / (LOSS)

(A) INVESTMENT INCOME / (LOSS) FOR THE PERIOD

Investment income / (loss) consisted of the following:

($ 000's)	**2001**	2000
CANADIAN EQUITIES		
Unrealized gains / (losses)	**$ (931,968)**	$ 321,159
Fund distributions of capital gains and dividends	**213,298**	9,000
Realized gains	**180,277**	89,355
Other investment income	**6,284**	5,089
	(532,109)	424,603
NON-CANADIAN EQUITIES		
Unrealized gains / (losses)	**(315,028)**	38,213
Fund distributions of capital gains and dividends	**—**	281
Realized gains / (losses)	**(99)**	286
Other investment income	**2,381**	403
	(312,746)	39,183
TOTAL INVESTMENT INCOME / (LOSSES)	**$ (844,855)**	$ 463,786

In implementing its market replication strategy, the CPP Investment Board utilizes index funds. In instances where a large dollar value of index fund units is to be purchased, the CPP Investment Board initially purchases individual securities that make up the index. The securities are then transferred to the index fund in exchange for units in the fund. On transfer, a gain or loss may be realized representing the difference between the market price of the securities at the time of the transfer and their original cost.

(B) INVESTMENT PERFORMANCE

Portfolio returns and benchmark returns are as follows:

	2001		2000	
	Portfolio Returns	**Benchmark Returns**	Portfolio Returns	Benchmark Returns
Canadian equities	**(7.7%)**	**(18.6%)**	45.3%	45.5%
Non-Canadian equities	**(17.5%)**	**(18.2%)**	16.6%	16.1%
Total portfolio	**(9.4%)**	**(17.8%)**	40.1%	39.3%

The CPP Investment Board uses a variety of metrics over the short, medium and long term to make an informed judgment about investment performance. Benchmark returns are used to measure investment performance relative to the return of the broad markets in which the CPP Investment Board invests: the TSE 300 for Canadian equities, the S&P 500 (MSCI U.S. to November 2000) and the MSCI EAFE for non-Canadian equities.

The total return composite benchmark aggregates the asset class benchmark returns according to the asset mix policy weights specified in the Investment Policy.

Returns have been calculated in accordance with the methods set forth by the Association for Investment Management and Research.

8. INVESTMENT AND ADMINISTRATIVE EXPENSES

(A) OPERATING EXPENSES

Operating expenses consisted of the following:

($ 000's)	**2001**	2000
Communication expenses	**$ 700**	$ 364
Directors' remuneration	**376**	269
Custodial fees	**281**	140
Office supplies and equipment	**252**	179
Occupancy costs	**237**	231
Travel and accommodation for directors' meetings	**129**	100
Other operating expenses	**304**	167
	$ 2,279	$ 1,450

Communication expenses for fiscal 2001 include expenditures in respect of public meetings required by legislation and held across the country in January 2001.

Directors' remuneration includes an annual retainer for each director of $12,000, board and committee meeting fees of $900 per meeting, plus an additional annual retainer of $3,000 for each committee chair. (Separate fees are not paid for investment committee meetings when they are held on the same day as board meetings, which is the usual custom.) The Chair also receives $32,000 in additional annual compensation for the position of Chair of the Board of Directors but is not eligible to receive the $3,000 retainer paid to committee chairs.

Directors of the CPP Investment Board come from various regions of the country and accordingly they incur travel and accommodation expenses in attending meetings of the board

and committees. In fiscal 2001, 14 board and investment committee meetings and 17 committee meetings were held.

(B) EXECUTIVE COMPENSATION

Compensation earned by executive officers of the CPP Investment Board during fiscal 2001 amounted to $1,214,697 (2000 - $422,931). Included in this total are the following amounts:

Employee	Year	Salary	Annual Bonus[5]	Long-Term Bonus[5]	Benefits[6]
John A. MacNaughton[1]	2001	$ 350,000	$ 175,000	$ 30,490	$ 50,406
President and Chief Executive Officer	2000	$ 201,923	$ 100,962	—	$ 4,256
Valter Viola[2]	2001	$ 109,846	$ 74,695	—	$ 7,303
Vice President – Research and Risk Management	2000	$ —	$ —	—	$ —
Jane Nyman[3]	2001	$ 101,231	$ 49,603	$ 4,952	$ 15,501
Vice President – Finance and Operations	2000	$ 78,077	$ 37,589	—	$ 124
Mark Weisdorf[4]	2001	$ 85,385	$ 68,308	—	$ 9,206
Vice President – Private Market Investments	2000	$ —	$ —	—	$ —

[1] Commenced employment on September 7, 1999.
[2] Commenced employment on August 9, 2000. In addition to the amounts noted herein, Mr. Viola was paid $50,000 upon commencement of employment representing compensation foregone from his previous employer.
[3] Commenced employment on September 13, 1999. Fiscal 2001 salary represents 8½ months of compensation.
[4] Commenced employment on October 16, 2000.
[5] Bonus awards include an annual and a long-term component and are based on the achievement of agreed objectives. The long-term bonus, which is paid out over a three year period, reflects amounts payable for the current year.
[6] Benefits include pension contributions in connection with a defined contribution registered pension plan and supplemental executive retirement plan, life insurance, club dues, and other miscellaneous non-cash remuneration.

(C) PROFESSIONAL AND CONSULTING FEES

Professional and consulting fees consisted of the following:

($ 000's)	**2001**	2000
Consulting	**$ 532**	$ 626
Legal	**225**	124
Professional accounting and audit	**201**	105
	$ 958	$ 855

Consulting fees represent amounts paid for professional assistance in connection with items such as strategic planning, governance matters, executive search, and other human resource related matters.

9. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current presentation.

CORPORATE INFORMATION

BOARD OF DIRECTORS AND INVESTMENT COMMITTEE

Gail Cook-Bennett *(Chair)*
Mary C. Arnold
Gilbert Gill
Monique Leroux
Jacob Levi
Helen M. Meyer
Dale G. Parker
M. Joseph Regan
Helen Sinclair
Richard M. Thomson
David Walker

OFFICERS

John A. MacNaughton, *President and Chief Executive Officer*
Jane Beatty, *Vice President – General Counsel and Corporate Secretary (appointment effective June 11, 2001)*
Jane Nyman, *Vice President – Finance and Operations*
Valter Viola, *Vice President – Research and Risk Management*
Mark A. Weisdorf, *Vice President – Private Market Investments*

AUDIT COMMITTEE

Mary C. Arnold *(Chair)*
Gilbert Gill
Jacob Levi
Helen M. Meyer
M. Joseph Regan

HUMAN RESOURCES AND COMPENSATION COMMITTEE

Richard M. Thomson *(Chair)*
Gail Cook-Bennett
Helen M. Meyer
David Walker

GOVERNANCE COMMITTEE

Dale G. Parker *(Chair)*
Gail Cook-Bennett
Monique Leroux
Jacob Levi
Helen Sinclair

Ce rapport annuel est aussi disponable en français

ADDRESS

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M5C 2W5

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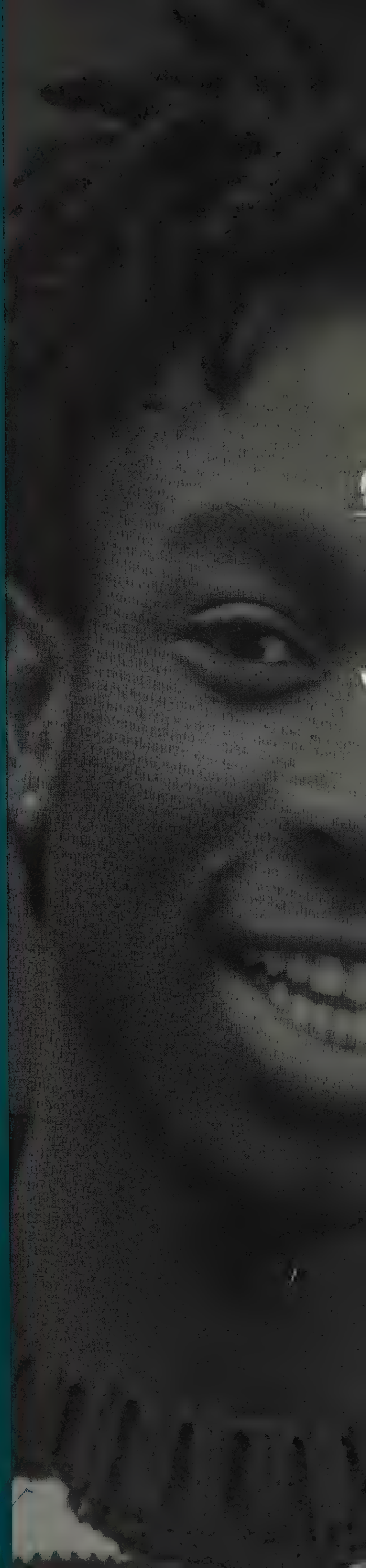

CPP INVESTMENT BOARD

It's about the future

ANNUAL REPORT 2002

Canadians have the right to know

Canadians have the right to know why, how and where we invest their Canada Pension Plan money, who makes the investment decisions, what assets are owned on their behalf, and how the investments are performing.

Consequently, we are committed to pro-actively disclosing comprehensive and timely information about our investment activities, primarily through our web site, so that Canadians can understand how we are helping to keep the Canada Pension Plan promise.

Our timely disclosure of important developments is also made through news wire services. Examples are our quarterly and annual financial results, new investments, new partner-like relationships, executive appointments, and notice of public meetings.

We do not disclose information regarding investments under consideration or not completed, and we respect third-party confidentiality agreements. We comply with federal and provincial laws and regulations regarding such matters as privacy.

What's available on our website www.cppib.ca

- What's New
- Public Meetings
- Results
- Holdings
- News Releases
- Quarterly Reports
- Partnering Opportunities
- Meet Our Team
- Our Governance
- Our Policies
- Canada Pension Plan
- Our History
- Our Legislation
- Our Regulations
- Our Investment Challenge
- Investment Considerations
- Return Expectations
- Risk Management
- Public Market Investments
- Guidelines for Public Market Investments
- Private Market Investments
- Guidelines for Private Market Investments
- Measuring Total Fund Performance
- Social Investing
- Annual Reports
- FAQs

Table of contents

Our investment and operating objectives

Our goal is to grow the value of assets available to the Canada Pension Plan to help pay pensions to today's workers, starting as early as 2021. Consequently, what we do is very much about the [illegible] future for millions of Canadians.

While our investment focus is long term, we set annual investment and operating objectives, [illegible] them at the end of each fiscal year.

FISCAL 2002 OBJECTIVES AND PERFORMANCE

Implement investment risk management framework.

Expanded policies, guidelines and procedures to control risk and introduced a portfolio risk management system.

Diversify portfolio investment activities, including introduction of active management

Diversified from exclusive investment in passive index funds to include externally manag[illegible]

Control our costs as we expand operations and diversify investment activities.

Held costs below board-approved budget, with expenses of 9¢ per $100 of assets.

Redesign and expand the web site as our primary medium of public communications.

Substantially completed by year end for implementation in May 2002.

FISCAL 2003 OBJECTIVES

- Adjust our passive equity investing strategies to enhance long-term returns
- Initiate active public market investment programs to complement our active private [illegible]
- Implement an internal audit function to augment the external audit function within an [illegible] risk management approach
- Enhance performance measurement and attribution reporting

Accountability *through disclosure and oversight*

Chair's Report

Gail Cook-Bennett

The CPP Investment Board is responsible for billions of dollars of retirement funds belonging to Canadians and must, therefore, be fully accountable to them. These funds must be managed to the highest professional standards and at arm's length from governments with qualified managers making investment decisions.

Accordingly, in framing the CPP Investment Board's legislation and regulations, the federal and provincial governments addressed both accountability and professional independence.

By legislation, the CPP Investment Board is required to report to Parliament through the finance minister, who tables our annual report in the House of Commons. Quarterly and annual financial statements are filed with the federal and provincial finance ministers, who are collectively responsible for the Canada Pension Plan. Furthermore, legislation requires the Chairperson and Chief Executive Officer to hold bi-annual public meetings in each province that participates in the Canada Pension Plan.

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Board-approved policies, including codes of conduct and conflict of interest procedures, can be found under Our Policies.

The CPP Investment Board has, however, moved far beyond these legislated disclosure requirements to embrace the philosophy described on the inside cover of this report. The belief that Canadians have the right to know how and where their dollars are invested and, of course, how their investments are performing dictates disclosure of investment policies, decisions and holdings. As a result of this pro-active process, Canadians and their representatives can assess the performance of the organization.

Oversight of management is a central duty of the directors to ensure compliance with the CPP Investment Board's legislated mandate. That mandate is to invest for CPP contributors and beneficiaries and to maximize investment returns without undue risk of loss. Critical to effective oversight is having directors

with experience in financial services, investing and other areas pertinent to the Investment Board's responsibilities. The legislation and nominating process are quite clear in requiring directors with this experience.

The board's four committees provide more detailed oversight from different perspectives:

- The investment committee, consisting of the full board, reviews and approves all investment policies and strategies and the appointment of external fund managers. The investment policies were reviewed in fiscal 2002 and key elements are published as our Investment Statement.
- The governance committee oversees codes of conduct for directors, officers and employees as well as the identification and resolution of conflicts of interest. In fiscal 2002, it approved a revised governance manual.
- The human resources and compensation committee evaluates the performance, compensation and organization of management.
- The audit committee ensures that management has an effective internal control structure for enterprise-wide risks and oversees the completion of the financial statements with the assistance of the auditors. In fiscal 2002, an accounting firm was retained to provide on-going internal audit services, including the review of management's monitoring and evaluation of risks, the related policies, operating procedures and controls. The internal audit firm complements the activities of the external audit firm.

Through a rigorous process, objectives for the Chief Executive Officer and management are set and performance is monitored and rewarded annually.

The directors also engage in an annual self-assessment of their own effectiveness as a team and as individuals. The individual assessment questionnaire, for example, asks directors to evaluate their own

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The mandate and act

contribution and rate their colleagues. Appropriate confidentiality is retained through use of an outside consultant to collate the information.

The governance model and processes do not, of course, guarantee organizational success, though we believe they contribute to good performance. As a relatively new organization we were honoured that the CPP Investment Board was selected as the winner of the Conference Board of Canada/Spencer Stuart governance award for the public sector in 2002. The award is an endorsement of key governance decisions made by the federal and provincial governments in the late 1990s in forming the CPP Investment Board. These decisions are the solid foundation on which we have developed our governance practices.

From time to time, directors must leave the board as their job responsibilities change or systemic conflicts arise. On behalf of the board, my sincere thanks to Monique Leroux who stepped down after a short but productive tenure. The CPP contributors and beneficiaries are served by a board of independently minded directors that exercises oversight over a professional management team committed to helping the Canada Pension Plan meet its long-term obligations.

Gail Cook-Bennett, Chairperson

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Governmental and public reporting is spelled out in our legislation and regulations, available under Why We Exist.

A board with the right expertise

The nominating committee that recommends individuals to serve as directors is required to consider candidates with financial, investment and business experience. The directors are responsible for investment policies, standards and procedures, appointing an independent auditor, approving policies to identify and resolve conflicts of interest, approving codes of conduct for directors, officers and employees, and monitoring and assessing management's performance.

Gail Cook-Bennett
Chairperson [1, 3]
Economist.
Former professor, business consultant.
Chair, investment committee.

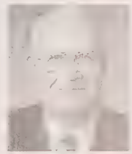
Mary C. Arnold [2]
Chartered accountant.
Management consultant.
Chair, audit committee.

Gilbert Gill [2]
Chartered accountant.
Former deputy finance minister, Newfoundland and Labrador.

Jacob Levi [1, 2]
Actuary.

Helen M. Meyer [2, 3]
Financial executive.

Dale G. Parker [1]
Corporate director
Former financial executive
Chair, governance committee



M. Joseph Regan [2, 3]
Retired bank executive

Helen Sinclair [1]
Financial executive.

Richard M. Thomson
Retired bank executive
Chair, human resources and compensation committee

David Walker [3]
Business executive

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An explanation of the process and directors bi are under Who We Are

All directors are members of the investment committee, which reviews and approves management's investment strate[illegible] al fund managers

[1] The governance committee is responsible for governance, measuring board effectiveness, and monitoring codes of conduc[illegible] g clear board and management authority for resolving perceived conflicts and ensuring directors and employees formally acknowledge their cc[illegible]

[2] The audit committee oversees financial reporting, external audit, information systems, internal audit and internal controls, and ris[illegible]

[3] The human resources and compensation committee is responsible for compensation philosophy, reviewing CEO's performance [illegible] and organizational structure

a distinctive *national, institutional investor*

President's Report

John A. MacNaughton

We have completed another productive year at the CPP Investment Board. Among our accomplishments:

- We earned $316 million on equity investments for a 3.4 per cent rate of return.
- We expanded beyond passive public equity investing into actively managed private equity funds by committing $2.4 billion to 14 external managers. These commitments will be invested over the next several years.
- We enhanced our investment accounting, performance measurement and risk management capabilities. This will enable us to refine our short-term and long-term portfolio risk management as our assets undergo rapid growth.
- We expanded to 23 permanent staff with the recruitment of professionals and support personnel in all investment and operating areas. We continue as a lean and focused organization committed to controlling overhead costs, developing and managing disciplined investment and operating strategies, retaining outside specialists to implement most of our strategies under our close supervision, and producing long-term returns that contribute to the financial strength of the Canada Pension Plan.

We are well positioned to move to the next phase of our development. As we shape our future course, it is important to remember that the CPP Investment Board is substantially different in purpose and design from many Canadian pension funds.

First, unlike a typical pension plan, the Canada Pension Plan does not have a target of being fully funded (that is, with assets matching liabilities). Born as a pay-as-you-go scheme in 1966, the plan is now designed to be partially funded, with assets projected to reach roughly 25 per cent of liabilities in future years. Contributions by employers and employees and investment income from the CPP Investment Board will help governments to meet their CPP obligations as they come due.

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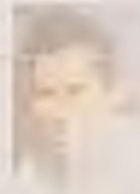
Our approach to forming partner-like relationships with external investment managers is outlined under Partnering Opportunities.



Second, CPP benefits are fully indexed for inflation, which means we need to invest in assets that outperform inflation. The least risky investments that guarantee a return above inflation are real-return bonds. Unfortunately, they do not produce returns sufficient to satisfy the CPP's future needs. We have to assume some risks to earn higher returns over the long term.

Third, with high levels of annual cash inflow we will be a large institutional investor relative to the small Canadian market. Our assets will range between $125 billion and $150 billion by 2012. The exact amount will depend on the returns we earn, how much of the government bond portfolio held by the Canada Pension Plan is transferred to us, and the excess of CPP contributions over benefits paid. During the next decade, we expect to have between $6 billion and $8 billion of new cash to invest on average *every year*. Obviously, we want to avoid bidding prices up, especially in the Canadian public equity market. To diversify from having "too many eggs in one basket" we will maximize non-Canadian exposure to capitalize on growth in other world economies.

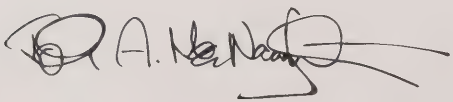
Fourth, the plan will not need cash from the CPP Investment Board for about 20 years. According to the Chief Actuary's assumptions, Canada Pension Plan contributions are projected to exceed benefit payments until 2021. This is good news for a cash-rich equity investor. We can take advantage of several business cycles to gain higher equity returns from economic growth in Canada and global markets, and invest a portion of assets in less liquid assets to earn higher returns.

These distinctive characteristics mean that we must move away from the limitations in our current strategy of replicating stock indexes for Canadian, U.S. and other markets. Our plan is to internalize the passive management of public equities, reconfigure the portfolio and retain external specialists for active management.

a portion of it. We will also expand our commitments in private equity and explore opportunities in income-producing real estate, infrastructure and natural resources. Our current and future investment strategies are described in the next section, Strategies for Long-Term Growth.

Finally, we differ from Canadian pension funds in that we work for and report to a national constituency of 16 million CPP contributors and beneficiaries, as well as to the federal and provincial governments. We accept the responsibility to keep them informed on changes in our investment strategy. With that in mind, we have greatly expanded the continuous disclosure of investment information on our web site. We also welcome hearing from Canadians at the public meetings scheduled across the country in June 2002, the details of which are posted on our web site.

Thank you to our board of directors for its guidance and support during the past year, and our dedicated staff for their commitment and hard work in ensuring that everything we do at the CPP Investment Board is designed to further the long-term financial strength of the Canada Pension Plan.



John A. MacNaughton, President and Chief Executive Officer

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Biographies of the management team are available under Meet Our Team.

Strategies for long-term growth

We invest cash not currently required by the Canada Pension Plan to pay benefits. This cash is put to work in capital markets so that it can grow in value to support today's younger workers when they retire.

Legislation requires us to act in the best interests of CPP contributors and beneficiaries, to maximize investment returns without undue risk of loss, and to take into consideration the CPP's funding status and ability to meet its obligations.

We are currently investing exclusively in equities to earn the level of returns expected by the plan over the long-term and to balance $39.3 billion of government bonds and short-term securities held by the CPP. In our view, equities should outperform bonds over the long-term and more than compensate for the extra risks assumed.

By the end of fiscal 2002, we had invested mostly in public equity, with three per cent in private equity. Our target of investing 10 per cent of the total portfolio in private equity and five per cent in other private market assets will take several years to achieve.

We comply at all times with the foreign property limit in the *Income Tax Act* that restricts pension funds to investing no more than 30 per cent of assets (at cost) outside Canada.

Public Market Investments At the end of fiscal 2002, we were invested in externally managed funds that replicate the composition of:

- The S&P/TSE Composite Index of approximately 300 firms that trade on the Toronto Stock Exchange. Stocks are selected by a committee of the TSE and Standard & Poor's Company
- The S&P 500 Index of large U.S. companies selected by the Standard & Poor's Company
- The MSCI EAFE Index of about 1,000 companies in 21 countries in Europe, the Far East and Australasia. Stocks are selected by Morgan Stanley Capital International.

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The Investment State[illegible] frames our board-approved [illegible] ment ac[illegible] Our Policies

During our first three years we invested passively in public equities. In fiscal 2003, we will develop and implement a new public markets strategy.

First, we will consolidate the stock index funds in a single passive portfolio under internal management. We will employ several firms to help minimize costs during the time lapse between receiving cash from the Canada Pension Plan and actually investing it. The goal is to reduce portfolio costs associated with putting large sums of money into the market.

Second, staff will focus on managing portfolio risk, rather than solely on beating a broad market benchmark. We will use derivatives to reduce risk, enhance returns and reduce costs. For example, an S&P 500 futures contract is a cheaper and easier way to adjust market exposure in the U.S. than buying or selling the 500 stocks in the S&P 500 Index.

Third, we will hire external managers to add value to the passive portfolio through active management. They will use their expertise to overweight or underweight certain components of the portfolio. This might mean, for example, buying and selling individual stocks in an economic sector to achieve a more positive outcome than the weighting of the same stocks in our passive portfolio.

Private market investments We initiated our private equity strategy in June 2001. Private equity offers the potential to earn higher returns than public equity over time. It requires patience because private markets are illiquid (with fewer buyers and sellers). During the early years, when investments are made, low returns and losses are possible, particularly in venture capital. Strong growth in value and investment returns tend to appear in later years when investments are sold.

By year end, we had formed relationships with 14 fund managers in Canada, the United States and United Kingdom. We committed approximately $2.4 billion, primarily to 16 pooled funds managed by these firms.

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Our current strategy and proposed direction for public market investments are discussed under How We Invest.

The commitments will be drawn down as the firms identify attractive investments. By year end, $460 million was invested. Our ultimate goal is to invest as much as 10 per cent of total assets in private equity.

We make venture capital available to early-stage companies developing products or services with the prospect of generating revenue in the future and to later-stage firms already generating revenue with the expectation of near-term profits. We also invest in buyout funds that make capital available to companies undertaking a new business plan or expansion, as well as acquisitions and financial restructuring, to generate growth and improve financial performance.

We will continue to forge partner-like relationships with additional private equity managers in Canada and abroad.

Starting in fiscal 2003, we will explore opportunities to commit funds to income-producing real estate and infrastructure projects, as well as energy and natural resource assets. Our goal, subject to identifying appropriate opportunities, is to invest as much as five per cent of our total portfolio in these types of assets.

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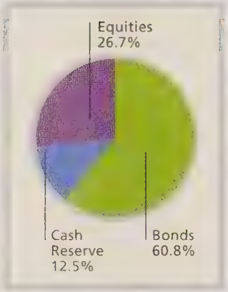
What we mean by private market investments, and the partne[illegible] have chosen to date, is rev[illegible]

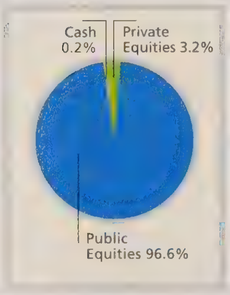
How the assets are performing

ASSETS AVAILABLE TO CPP
March 31, 2002



Most large Canadian public sector pension funds have 60 per cent or more of their assets invested in equities.

EQUITY ASSET MIX
March 31, 2002



Our first investments in private equities occurred in fiscal 2002. Cash is primarily held to finance private equity commitments.

In fiscal 2002 total assets available to the Canada Pension Plan grew by $4.5 billion to $53.6 billion. They consisted of:

- $39.3 billion in fixed-income securities held by the Canada Pension Plan and administered by the Department of Finance Canada in Ottawa; and
- $14.3 billion in equities managed by the CPP Investment Board in Toronto.

The combined assets earned $2.3 billion for the year ended March 31 2002 to produce an estimated 5.7 per cent rate of return. About one percentage point of the return reflected an increase in equities during the year from 14 per cent to 27 per cent of CPP assets, combined with higher fixed-income returns in the first half of the year (when equity returns were negative) and higher equity returns in the second half (when fixed-income returns were negative in the fourth quarter).

Fixed-income securities The $39.3 billion of fixed-income securities, consisting of $32.6 billion in government bonds and $6.7 billion in short-term government securities, compared with $42 billion a year earlier. The valuations are estimates by the CPP Investment Board. They reflect the fact that the bonds do not trade and provincial bonds can currently be renewed at maturity at each issuer's discretion for a further 20-year term. During the year, some bonds matured and the net proceeds were used to pay pensions or were transferred to the CPP Investment Board and invested in equities.

The fixed-income securities generated investment income of $2.0 billion in fiscal 2002, compared with $3.8 billion in the prior year. The investment income reflected current yields that did not change materially.

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The government bond portfolio is summarized under the Holdings and is updated quarterly.

Equities The assets managed by the CPP Investment Board are invested in equities to balance the large fixed-income portfolio and because we believe equities will produce superior long-term returns for the risks incurred. The $14.3 billion in equity at year-end compared with $7.2 billion a year earlier. In fiscal 2002, we received $6.8 billion in CPP transfers, compared with $5.6 billion in fiscal 2001. We do not attempt to time the market and invest cash inflows as soon as they are received.

The equity portfolio earned $316 million in fiscal 2002 for a 3.4 per cent return, compared with an $845 million investment loss in fiscal 2001 for a negative 9.4 per cent return.

On a quarterly basis the portfolio was highly volatile. A modest gain in the first quarter was followed by a large loss in the second quarter that was erased by a strong gain in the third quarter as markets recovered after the events of September 11. In our fourth quarter we added a further modest gain.

QUARTERLY PERCENTAGE GAINS AND LOSSES

QUARTERLY DOLLAR GAINS AND LOSSES ($billions)

As assets grow, gains and losses will eventually widen to a few billion dollars in
We are confident that equities will produce positive returns over the long term to co

The most recent equi
owned by the CPP Inv
Board are listed under I

Canadian equities We invested 70 per cent of new cash in Canadian equities
changes over the past two years, we can invest actively and passively in Canadian equ

could only invest passively. In fiscal 2001 we used this new authority to reduce exposure to Nortel Networks at a time it represented about one-third of the market capitalization of the S&P/TSE composite index. This avoided $535 million in losses that year as the value of Nortel shares collapsed. The benefit of the reduced exposure carried into fiscal 2002, saving approximately $121 million.

By the third quarter of fiscal 2002, we reverted to index investing as Nortel no longer dominated the index and was only three per cent of the capitalization by year end. Late in the year, we began to accumulate positions in selected real estate securities as a method of increasing our exposure to real estate assets, with approximately $145 million invested by March 31, 2002.

Non-Canadian equities Outside Canada, where we can also invest actively and passively, we continued to invest in equity index funds that provide wide exposure to companies in the United States, Europe and Asia. We are required to adhere to the foreign property limit of investing no more than 30 per cent of total assets at cost outside Canada. At our year end, 15.6 per cent of our total portfolio at cost was invested in U.S. securities and 13.5 per cent outside North America.

Private equities In June 2001 we initiated an active program of investing in Canadian, U.S. and European private equities through external managers. It will take several years to achieve our target of investing 10 per cent of total assets in private equity and up to 12 years for the initial investments to realize their expected returns. Private equity was 3.2 per cent of the total portfolio at year end.

Performance versus benchmarks The performance of Canadian and non-Canadian equities are measured against customized benchmarks that blend the returns for stock indexes for public equities and internal targets for private equities. As can be seen in the table on the next page, we have done better than the markets in which we invest. Our Canadian equity portfolio outperformed the benchmark in 2001 and 2002, primarily because of our decision to reduce our holdings of Nortel, starting in September, 2000. Our foreign equity portfolio beat its benchmark in 2001 and 2002 primarily because of favourable timing in investing

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The performance of all assets available to the Canada Pension Plan are summarized quarterly at Results.

large sums of cash during market declines. The total portfolio return of 3.4 per cent in fiscal 2002 was 100 basis points (or one percentage point) above the benchmark that aggregates the performance of Canadian and non-Canadian equity markets.

%	Fiscal 2002		Fiscal 2001		Fiscal 2000		Since Inception[3]	
	Actual	Benchmark	Actual	Benchmark	Actual	Benchmark	Annualized	Benchmark
Canadian equities	5.9	4.8	(7.7)	(18.6)	45.3	45.5	13.8	8.9
Non-Canadian equities	(2.3)	(2.8)	(17.5)	(18.2)	16.6	16.1	(0.3)	(1.2)
Total Portfolio	3.4	2.4	(9.4)	(17.8)	40.1	39.3	10.9	6.9
Actuarial assumption[1*]		5.5		7.1		6.4		6.3
Our long-term target[2*]		6.7		8.4		8.2		7.8

1 Based on the Chief Actuary's real return assumptions for equities, including inflation
2 The CPP Investment Board's long-term risk-adjusted target, also including inflation
3 Returns are annualized since March, 1999
* Prior year's numbers have been restated to reflect inflation using a two-month lag consistent with how returns on Government of Canada real-return bonds are calculated.

Equities Since Inception We have earned a 10.9 per cent annualized return since March 1999. Our returns have varied from a positive 40.1 per cent on assets of $2.4 billion in fiscal 2000 to minus 9.4 per cent on assets of $7.2 billion in fiscal 2001 and a positive 3.4 per cent on assets of $14.3 billion in fiscal 2002.

Despite the 10.9 per cent return on the first dollar invested, we incurred a cumulative investment loss of $65 million from March 1 1999 to March 31 2002. The loss reflected positive returns when assets were much smaller and negative returns on a larger asset base primarily created by large CPP cash inflows.

Investment Outlook Between 1952 and 2001, equity investments produced returns that exceeded those on Government of Canada bonds by 3.0 per cent in Canada and 5.8 per cent in the United States. We expect equity returns will be below these levels over the next several years and will revert to historical levels over the long term. We are implementing our investment strategy accordingly.

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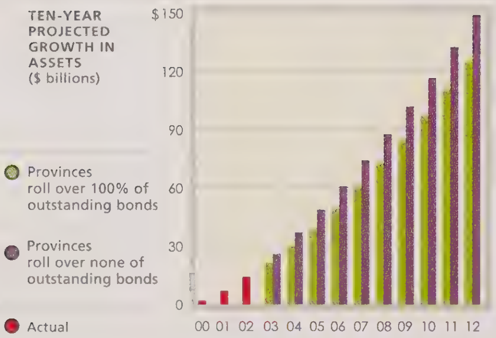
Our most recent finan
statements are publi
Quarterly Reports



The rate of growth in CPP Investment Board assets is affected by how much of the existing CPP bond portfolio is transferred to us each year.

Our assets will grow rapidly in the next 10 years with a large and steady influx of new cash. Being "cash rich" means we can take advantage of favorable buying opportunities. In the search for higher returns, we are developing value-added active management strategies for both public and private equity investing.

Operating expenses The CPP Investment Board incurred expenses of $11.4 million during the fiscal year, compared with $6.7 million in fiscal 2001. The 2002 expenses were 9 basis points, or 9 cents per $100 of invested assets, compared with 12 basis points, or 12 cents per $100 of invested assets, in the prior year.

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Decisions and developments that could affect future performance are posted under What's New as soon as possible.

The increased expenses reflected the hiring of new staff, expanded operations, the move to new premises, investment in infrastructure and increased fees for external investment management, as a result of the higher asset base.

Investment management and administrative expenses will continue to rise in dollar terms as we increase our human resources and form partner-like relationships with external investment managers to implement a diversified investment strategy. We plan to introduce incentive-based compensation for outside managers. This should produce higher net investment returns (i.e. after expenses) and consequently higher fees.

Investment and administrative expenses are discussed further in the financial statements on pages 26 to 28.

Management's Responsibility for Financial Reporting

The financial statements of the Canada Pension Plan Investment Board (the "CPP Investment Board") have been prepared by management and approved by the Board of Directors. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Management is responsible for the contents of the financial statements and the financial information contained within the annual report.

The CPP Investment Board maintains records and develops and maintains systems of internal control and supporting procedures to provide reasonable assurance that the CPP Investment Board's assets are safeguarded and controlled and that transactions are in accordance with the *Canada Pension Plan Investment Board Act,* the accompanying regulations, the by-laws, the Investment Statement, and the Investment Policies.

The Audit Committee assists the Board of Directors in discharging its responsibility to approve the annual financial statements. The Committee meets regularly with both management and the external auditors to discuss the scope and findings of audits and other work that the external auditors may be requested to perform from time to time, to review financial information, and to discuss the adequacy of internal controls. The Committee reviews and approves the annual financial statements and recommends them to the Board of Directors for approval.

The CPP Investment Board's external auditors, Deloitte & Touche LLP, have conducted an independent examination of the financial statements in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express an opinion in their Auditors' Report. The external auditors have full and unrestricted access to management and the Audit Committee to discuss any findings related to the integrity of the CPP Investment Board's financial reporting and the adequacy of internal control systems.

John A. MacNaughton
President and Chief Executive Officer

Jane Nyman
Vice President – Finance and Operations

Investment Certificate

The *Canada Pension Plan Investment Board Act* (the "Act") requires that a certificate be signed by a director on behalf of the Board of Directors, stating that the investments of the CPP Investment Board held during the year were in accordance with the Act and the CPP Investment Board's investment policies, standards and procedures. Accordingly, the Investment Certificate follows.

The investments of the CPP Investment Board, held during the year ended March 31, 2002, were in accordance with the *Canada Pension Plan Investment Board Act* and the CPP Investment Board's Investment Statement and Investment Policies.

Mary C. Arnold

Mary C. Arnold
Chair of the Audit Committee on behalf of the Board of Directors, May 8, 2002

Auditors' Report

To the Board of Directors
Canada Pension Plan Investment Board

We have audited the balance sheet and the statement of investment portfolio of the Canada Pension Plan Investment Board (the "CPP Investment Board") as at March 31, 2002 and the statements of income/(loss) and accumulated net loss from operations and of changes in net assets for the year then ended. These financial statements are the responsibility of the CPP Investment Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the CPP Investment Board and the investments held as at March 31, 2002 and the results of its operations and changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

Further, in our opinion, the transactions of the CPP Investment Board that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with the *Canada Pension Plan Investment Board Act* (the "Act") and the by-laws.

Further, in our opinion, the record of investments kept by the CPP Investment Board's management pursuant to paragraph 39(1)(c) of the Act fairly presents, in all material respects, the information required by the Act.

Deloitte & Touche LLP

Chartered Accountants
Toronto, Ontario, April 24, 2002

Balance Sheet

March 31, 2002 *($ 000's)*	2002	2001
ASSETS		
Investments (Note 2)	$ 14,289,378	$ 7,154,876
Due from brokers	2,343	—
Premises and equipment	1,278	26[illegible]
Other assets (Note 3)	79	1,206
TOTAL ASSETS	14,293,078	7,156,343
LIABILITIES		
Accounts payable and accrued liabilities	4,730	2,174
Due to brokers	3,382	—
TOTAL LIABILITIES	8,112	2,174
NET ASSETS	$ 14,284,966	$ 7,15[illegible]
NET ASSETS, REPRESENTED BY		
Share capital (Note 5)	$ —	$ —
Accumulated net loss from operations	(86,626)	(391,252
Accumulated Canada Pension Plan transfers	14,371,592	7,545,421
NET ASSETS	$ 14,284,966	$ 7,154,169

On behalf of the Board of Directors:

Gail Cook-Bennett

Gail Cook-Bennett
Chairperson

Mary C. Arnold

Mary C. Arnold
Chair of the Audit Committee

Statement of Income/(Loss) and Accumulated Net Loss from Operations

Year ended March 31, 2002 ($ 000's)	**2002**	2001
INVESTMENT INCOME/(LOSS) (Note 7)	**$ 316,034**	$ (844,855)
INVESTMENT AND ADMINISTRATIVE EXPENSES (Note 8)		
Salaries and benefits	**4,283**	1,963
General operating expenses	**3,204**	2,279
External investment management fees	**2,951**	1,535
Professional and consulting fees	**970**	958
	11,408	6,735
NET INCOME/(LOSS) FROM OPERATIONS	**304,626**	(851,590)
ACCUMULATED NET INCOME/(LOSS) FROM OPERATIONS, BEGINNING OF YEAR	**(391,252)**	460,338
ACCUMULATED NET LOSS FROM OPERATIONS, END OF YEAR	**$ (86,626)**	$ (391,252)

Statement of Changes in Net Assets

Year ended March 31, 2002 ($ 000's)	**2002**	2001
NET ASSETS, BEGINNING OF YEAR	**$ 7,154,169**	$ 2,391,793
CHANGES IN NET ASSETS		
Canada Pension Plan transfers (Note 6)	**6,826,171**	5,613,966
Net income/(loss) from operations	**304,626**	(851,590)
INCREASE IN NET ASSETS FOR THE YEAR	**7,130,797**	4,762,376
NET ASSETS, END OF YEAR	**$ 14,284,966**	$ 7,154,169

Statement of Investment Portfolio

March 31, 2002 *($ 000's)*	Fair Value		% of Portfolio	
	2002	2001	2002	20[illegible]
EQUITIES (Note 2)				
Canada				
Public Markets	**$ 9,969,569**	$ 5,024,457	[illegible]	[illegible]
Private Markets	**144,207**	—	1.0%	—
	10,113,776	5,024,457	70.8%	[illegible]
United States				
Public Markets	**1,861,021**	1,069,852	13.0%	[illegible]
Private Markets	**304,445**	—	2.1%	[illegible]
	2,165,466	1,069,852	15.1%	[illegible]
Non-North America				
Public Markets	**1,971,484**	1,060,567	13.8%	[illegible]
Private Markets	**11,606**	—	0.1%	—
	1,983,090	1,060,567	13.9%	14.8%
TOTAL EQUITIES				
(Cost 2002 – $14,690,451				
2001 – $ 8,042,325)	**14,262,332**	7,154,876	99.8%	100.0%
OTHER INVESTMENTS (Note 2)				
Money Market Securities				
(Cost 2002 – $ 27,046				
2001 – $ Nil)	**27,046**	—	[illegible]	—
TOTAL INVESTMENTS	**$ 14,289,378**	$ 7,154,876	[illegible]	[illegible]

ORGANIZATION

The Canada Pension Plan Investment Board (the "CPP Investment Board") was formed pursuant to the *Canada Pension Plan Investment Board Act* (the "Act"). The CPP Investment Board is responsible for managing amounts that are transferred to it under Section 111 of the *Canada Pension Plan* in the best interests of the beneficiaries and contributors under that Act. The amounts are to be invested with a view to achieving a maximum rate of return, without undue risk of loss, having regard to the factors that may affect the funding of the Canada Pension Plan (the "CPP") and the ability of the CPP to meet its financial obligations.

The CPP Investment Board has a fiscal year end of March 31.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF PRESENTATION

These financial statements present the consolidated financial position and operations of the CPP Investment Board and its wholly-owned subsidiary. The financial statements include only a portion of the assets (as described in Note 2) and none of the pension liabilities of the CPP. The statements have been prepared in accordance with Canadian generally accepted accounting principles and the requirements of the Act and the accompanying regulations.

(B) VALUATION OF INVESTMENTS

Investments are recorded as of the trade date and are stated at fair value. Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Quoted market prices for publicly traded securities and unit values for pooled and mutual funds are used to represent fair value for these investments. Unit values reflect the quoted market prices of the underlying securities. In the case of private market investments, where quoted market prices are not available, fair value is determined utilizing valuations provided by external managers who use industry valuation methods such as earnings multiples of comparable publicly traded companies, discounted cash flows, and appraisals. In the first year of ownership, cost is generally considered to be an appropriate estimate of fair value, unless there is an indication of permanent impairment of value.

(C) INVESTMENT INCOME RECOGNITION

Investment income is recorded on the accrual basis and represents realized gains and losses on disposal or transfer of investments, unrealized gains and losses on investments held at the end of the year, dividend income (recognized on ex-dividend date), interest income, and distributions from mutual and pooled funds.

Realized gains and losses on investments sold during the year represent the difference between sale proceeds and cost, less related costs of disposition. Unrealized gains and losses represent the change in the difference between fair value and cost of investments at the beginning and end of each year.

(D) TRANSLATION OF FOREIGN CURRENCIES

Transactions in foreign currencies are recorded at the rates of exchange prevailing on the transaction date. Investments denominated in foreign currencies and held at the year end are translated at exchange rates in effect at the year e[illegible] date. The resulting realized and unrealized gains and losses are included in investment income.

(E) CANADA PENSION PLAN TRANSFERS

Amounts received from the CPP are recorded on a cash basis.

(F) INCOME TAXES

The CPP Investment Board is exempt from Part I tax under paragraph 149(1)(d) of the *Income Tax Act (Canada* [illegible] basis that all of the shares of the CPP Investment Board are owned by Her Majesty in right of Can[illegible]

(G) USE OF ESTIMATES

In preparing these financial statements, management must make certain estimates and assumptions which c[illegible] reported values of assets and liabilities, related income and expenses and note disclosures. Actual results cou[illegible] from these estimates.

2. INVESTMENTS

The statement of investment portfolio provides detailed information on the investments held as at March 31, 2002

(A) INVESTMENT POLICIES

The CPP Investment Board has established an Investment Statement and Investment Policies (collectively [illegible] "Investment Policies") which set out the manner in which assets shall be invested. The majority of the CPP [illegible] Board's investments are allocated to public and private equities in the Canadian, United States and Non-North Americ[illegible] markets. In determining the asset mix, the CPP Investment Board must take into consideration certain assets of the CP[illegible] which are held outside of the CPP Investment Board. As at March 31, 2002, these assets totalled approximately $35.0 billion (at cost) (2001 – $36.0 billion) and consisted primarily of government debt obligations.

As at March 31, 2002, 96.6% (2001 – 100%) of investments are held in public market equities. Approximately [illegible] (2001 – 60.8%) of investments in Canadian public market equities are held in funds that substantially replicate the composition of the Toronto Stock Exchange 300 Composite Index. All United States and [illegible] "Non-Canadian") public market equities are held in funds that substantially rep[illegible] Index and the Morgan Stanley Capital International ("MSCI") EAFE Index, respectively.

As at March 31, 2002, 3.2% (2001 – 0%) of investments are held in private market equities [illegible] in Canada, the United States, and Western Europe, are generally made by taking an interest in fun[illegible] The underlying investments represent equity ownership or investments with the risk and return characterist[illegible]

(B) DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are financial contracts, the value of which is derived from the value of underlying assets, interest rates or exchange rates.

As outlined in the Investment Policies, certain derivatives may be used to achieve market exposure by replicating direct investments in a relevant equity index, provided that the derivatives are not used to create leverage. The mutual and pooled funds in which the CPP Investment Board owns units are permitted to, and may from time to time, use derivatives subject to this constraint. During the years ended March 31, 2002, and 2001, other than through mutual and pooled funds, the CPP Investment Board did not directly enter into derivative contracts.

(C) FOREIGN CURRENCY EXPOSURE

The CPP Investment Board is exposed to currency risk through holdings of units in pooled funds of Non-Canadian equities and through investments in Non-Canadian private market equities where investment values will fluctuate due to changes in foreign exchange rates. Investments are not hedged against changes in foreign exchange rates. The underlying currency exposures as at March 31, 2002 are as follows:

($ 000's)	**2002**		2001	
Currency	**Fair Value**	**% of Total**	Fair Value	% of Total
United States Dollar[1]	**$ 2,163,954**	**52%**	$ 1,069,872	50%
Euro	**697,552**	**17%**	403,823	19%
British Pound Sterling	**542,765**	**13%**	228,192	11%
Japanese Yen	**388,170**	**9%**	253,549	12%
Swiss Franc	**156,826**	**4%**	73,019	3%
Other	**199,996**	**5%**	101,964	5%
	$ 4,149,263	**100%**	$ 2,130,419	100%

[1] Includes $707 (2001 - $Nil) of United States money market securities.

3. OTHER ASSETS

Other assets consist of the following:

($ 000's)	**2002**	2001
Cash and short-term investments	**$ 25**	$ 546
Dividends receivable	**—**	493
Other amounts receivable	**54**	167
	$ 79	$ 1,206

4. CREDIT FACILITY

During the current year, the CPP Investment Board established a $300,000,000 unsecured credit fac[illegible] term liquidity requirements. As at March 31, 2002, the total amount drawn on the credit facility was $[illegible]

5. SHARE CAPITAL

The issued and authorized share capital of the CPP Investment Board is $100 divided into 10 shares havi[illegible] of $10 each. The shares are owned by Her Majesty in right of Canada.

6. CANADA PENSION PLAN TRANSFERS

Section 111 of the *Canada Pension Plan* provides for the transfer to the CPP Investment Board of f[illegible] the CPP to pay current benefits. The funds come from both employer and employee contributions [illegible] of maturing and redeemed government bonds held in a portfolio administered by the federal governr[illegible] income generated from this portfolio. During the year, a total of $6,826,171,000 (2001 – $5,613,966[illegible] to the CPP Investment Board.

7. INVESTMENT INCOME/(LOSS)

(A) INVESTMENT INCOME/(LOSS)

Investment income/(loss) consists of the following:

($ 000's)	2002	[illegible]
NET GAIN/(LOSS) ON EQUITIES[1]		
Canada	$ 405,763	$ (538.3[illegible]
United States	7,414	(15[illegible]
Non-North America	(119,281)	(163[illegible]
	293,896	(85[illegible]
DIVIDEND INCOME		
Canada	12,153	[illegible]
United States	—	[illegible]
Non-North America	—	[illegible]
	12,153	[illegible]
INTEREST AND OTHER INCOME	9,985	[illegible]
TOTAL INVESTMENT INCOME/(LOSS)	$ 316,034	[illegible]

[1] Includes unrealized gains of $459,247 (2001 – unrealized losses of $1,246,995), realized losses of $378,669 (2001 – rea[illegible] distributions from pooled and mutual funds of $213,318 (2001 – $213,298). Distributions include capital gains and divid[illegible]

The CPP Investment Board utilizes index funds to implement its market replication strategy. In instances where a large dollar value of index fund units will be purchased, the CPP Investment Board initially purchases individual securities that make up the index. The securities are then transferred to the index fund in exchange for units in the fund. On transfer, a gain or loss may be realized representing the difference between the market price of the securities at the time of the transfer and their original cost.

(B) INVESTMENT PERFORMANCE

Portfolio returns and benchmark returns are as follows:

	2002		2001	
	Portfolio Returns	**Benchmark Returns**	Portfolio Returns	Benchmark Returns
Canadian investments	**5.9 %**	**4.8%**	(7.7)%	(18.6)%
Non-Canadian investments	**(2.3)%**	**(2.8)%**	(17.5)%	(18.2)%
Total return	**3.4 %**	**2.4 %**	(9.4)%	(17.8)%

The portfolio return for Canadian investments is the total return from Canadian public and private market equities, and money market securities. The Non-Canadian investment return reflects the performance of Non-Canadian public and private market equities.

The CPP Investment Board uses a variety of metrics over the short, medium and long term to evaluate investment performance. Benchmark returns are based upon the TSE 300 for Canadian investments, and the S&P 500 and the MSCI EAFE for Non-Canadian investments. The total portfolio benchmark return aggregates the asset class benchmark returns according to the weights specified in the Investment Policies.

Returns have been calculated in accordance with the methods set forth by the Association for Investment Management and Research.

8. INVESTMENT AND ADMINISTRATIVE EXPENSES

(A) EXECUTIVE COMPENSATION

Compensation earned by executive officers of the CPP Investment Board during fiscal 2002 amounted to $1,967,699 (2001 – $1,214,697). Included in this total are the following amounts:

Name	Year	Salary	Annual Bonus[6]	Long-Term [illegible]
John A. MacNaughton *President and Chief Executive Officer*	2002 2001	$ 363,650 $ 350,000	$ 181,825 $ 175,000	$ 31,5[illegible] $ 3[illegible]
Mark Weisdorf[1] *Vice President – Private Market Investments*	2002 2001	$ 185,000 $ 85,385	$ 148,000 $ 68,308	$ $
Valter Viola[2] *Vice President – Research and Risk Management*	2002 2001	$ 170,000 $ 109,846	$ 132,940 $ 74,695	$ $
Jane Nyman[3] *Vice President – Finance and Operations*	2002 2001	$ 160,000 $ 101,231	$ 62,880 $ 49,603	$ [illegible]
Donald Raymond[4] *Vice President – Public Market Investments*	2002 2001	$ 106,019 $ —	$ 84,815 $ –	[illegible]
Jane Beatty[5] *Vice President – General Counsel and Corporate Secretary*	2002 2001	$ 125,192 $ —	$ 47,072 $ –	[illegible]

[1] Commenced employment on October 16, 2000.
[2] Commenced employment on August 9, 2000. In addition to the amounts noted herein, Mr. Viola was paid $50,00[illegible] representing compensation foregone from his previous employer.
[3] Fiscal 2001 salary represents 8½ months of compensation.
[4] Commenced employment on September 4, 2001.
[5] Commenced employment on June 11, 2001.
[6] Bonus awards include an annual and a long-term component and are based on the achievement of agreed obje[illegible] amounts payable for the current year. Additionally, long-term bonuses awarded but not yet paid include approxi[illegible] $387,762 for payment in 2004, and $719,525 for payment in 2005. These amounts are adjusted annually by t[illegible] long-term bonus is subject to executive officers meeting certain conditions of employment
[7] Benefits include pension contributions in connection with a defined contribution registered pension plan and a [illegible] pension plan, life insurance, club dues, and other miscellaneous non-cash remuneration.

(B) GENERAL OPERATING EXPENSES

General operating expenses consist of the following:

($ 000's)	2002
Office rent, supplies and equipment	$ 1,314
Communication expenses	572
Directors' remuneration	325
Travel and accommodation	272
Custodial fees	213
Technology, data and analytical services	160
Other operating expenses	348
	$ 3,204

Directors' remuneration includes an annual retainer for each director of $12,000, board and committee meeting fees of $900 per meeting, plus an additional annual retainer of $3,000 for each committee chair. Separate fees are not paid for investment committee meetings when they are held on the same day as board meetings, which is the usual custom. The Chair of the Board of Directors receives $32,000 in additional annual compensation but is not eligible as Chair of the Investment Committee to receive the $3,000 retainer paid to committee chairs.

In fiscal 2002, 10 board and investment committee meetings and 17 other committee meetings were held.

(C) PROFESSIONAL AND CONSULTING FEES

Professional and consulting fees consist of the following:

($ 000's)	**2002**	2001
Consulting	**$ 481**	$ 532
Legal	**261**	225
Professional accounting and external audit	**228**	201
	$ 970	$ 958

9. COMMITMENTS

The CPP Investment Board has committed to enter into private market investment transactions, which will be funded over the next several years in accordance with the terms and conditions agreed to. As at March 31, 2002, these outstanding commitments totaled $2.0 billion (2001 – $Nil).

10. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current presentation.

Corporate [illegible]

Board of Directors and Investment Committee

Gail Cook-Bennett (Chairperson)
Mary C. Arnold
Gilbert Gill
Jacob Levi
Helen M. Meyer
Dale G. Parker
M. Joseph Regan
Helen Sinclair
Richard M. Thomson
David Walker

Audit Committee

Mary C. Arnold (Chair)
Gilbert Gill
Jacob Levi
Helen M. Meyer
M. Joseph Regan

Governance Committee

Dale G. Parker (Chair)
Gail Cook-Bennett
Jacob Levi
Helen Sinclair

Human Resources and Compensation Committee

Richard M. Thomson (Chair)
Gail Cook-Bennett
Helen M. Meyer
M. Joseph Regan
David Walker

Officers

John A. MacN[illegible]
President and [illegible]

Jane [illegible]
[illegible]

[illegible]
Vice P[illegible]

Donal[illegible]
Vice P[illegible]

[illegible]

Ma[illegible]
[illegible]

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Toll Free: 1-866-557-9510

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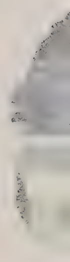

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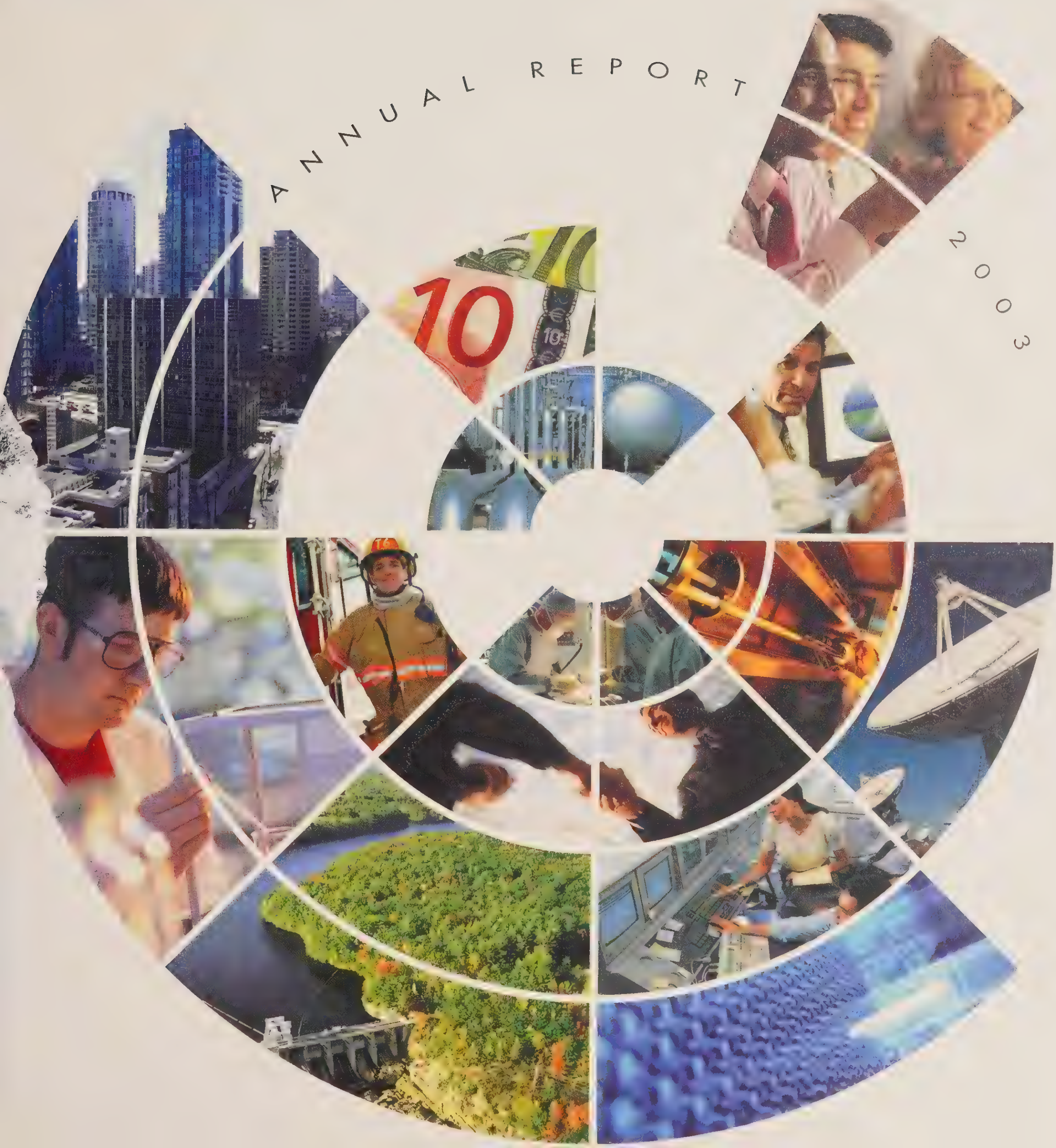
BOARD

BUILDING A DIVERSIFIED CPP PORTFOLIO

ANNUAL REPORT 2003



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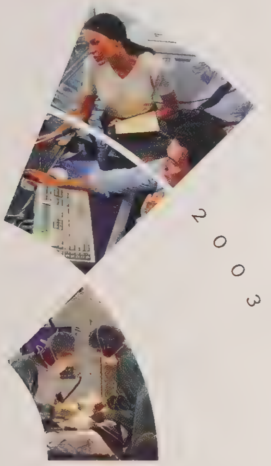
- What's New

PROFILE

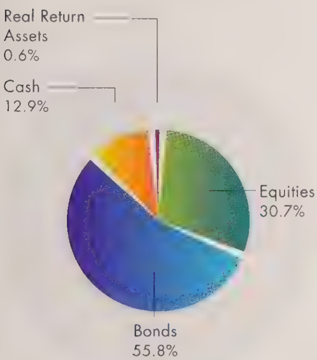


The CPP Investment Board is a Crown corporation created by an Act of Parliament in December 1997. Its long-term goal is to contribute to the financial strength of the Canada Pension Plan by investing in the best interests of 16 million CPP contributors and beneficiaries and by maximizing returns without undue risk of loss.

The CPP Investment Board invests in capital markets the funds not needed by the Canada Pension Plan to pay current pensions and is not expected to be required to contribute investment earnings to the CPP to help pay pensions until 2021. In order to build a diversified portfolio of CPP assets, the CPP Investment Board is currently investing in public equities, private equities and real estate to balance the cash and bonds owned by the CPP.

Our disclosure policy states that: "Canadians have the right to k how and where we invest their Canada Pension Plan money, who makes the investment decisions, what assets are owned on their behalf and how tl investments are performing."

CONSOLIDATED CPP ASSETS
Fiscal year ending March 31, 2003



By increasing the long-term value of funds available to the Canada Pension Plan, the CPP Investment Board will help the plan to keep its pension promise to Canadians.

Based in Toronto, the CPP Investment Board is governed and managed i pendently of the Canada Pension Plan and at arm's length from governme

For more information on the CPP Investment Board, visit our web site www.cppib.ca.

CHAIR'S REPORT: BUILDING ON THE GOVERNANCE PLATFORM

GAIL COOK-BENNETT

The CPP Investment Board is anticipating fundamental developments that will shape its investment strategy and organizational structure for many years. Since the organization was created four and a half years ago, it has diversified Canada Pension Plan assets beyond the large long-term bond and cash portfolio owned directly by the plan. Today, CPP assets include public and private equities, as well as real estate assets.

Starting in fiscal 2004, the CPP Investment Board is expected to assume responsibility for managing all CPP assets, which currently total $55.6 billion. This major development was approved recently by Parliament and is subject to the consent of the provinces. With this approval, the transfer of the bonds from the federal government in Ottawa to the CPP Investment Board in Toronto would occur over three years. The cash portion of the portfolio would be transferred begining in fiscal 2004 and the CPP Investment Board would then be responsible for providing the Canada Pension Plan with cash so it can pay its benefit obligations.

These pending changes coincide with the expected rapid growth in cash flows from CPP contributions in excess of those required to pay current pensions. In response, increased focus is being placed on long-term investment strategy and the organizational structure and resources best able to achieve long-term success.

The foundation of the organization is the governance platform created by the federal and provincial governments to provide oversight of how the national pension plan's assets are managed. The platform carefully balances two principles that underlie the CPP Investment Board's powers and accountabilities.

The first principle is that the investment professionals make their decisions independently of governments, though consistent with legislation and regulations. For this reason, the board of directors was given responsibilities similar to those of a corporate board in the private sector. The board of directors (rather

than government) appoints the chief executive officer, approves investment and operating policies, approves the annual business plan and budget, appoints external and internal auditors and approves the engagement of external investment managers.

The second principle is full accountability and reporting by the CPP Investment Board to Parliament, the provinces and the people of Canada. Part of the mandated reporting is to hold a public meeting in every participating province once every two years. The second series of coast-to-coast public meetings was held in June 2002. While public meetings provide personal contact with directors and management, we also survey public opinion [illegible] annually and initiate and accept meetings with key stakeholder groups. As [illegible] visit to our web site will confirm, the CPP Investment Board has chosen to be a leader on pension fund disclosure. A full listing of investments is provided quarterly along with considerable policy and investment information.

Widely publicized examples of poor governance practices and unethical conduct have led to considerable public distrust. Since the growing assets of the CPP Investment Board come from employee and employer contributions, governance practices and ethical conduct, as well as long-term investment performance, are important to earning and maintaining trust.

Early last year we invited three specialists to review our governance policies and procedures: David Bonham, who chaired the Canadian Institute of Chartered Accountants' task force on conflicts of interest for audit firms; Purdy Craw[illegible] who has served on securities industry committees examining conflicts [illegible] corporate governance; and Ted Hughes, a former superior court judge [illegible] ethics commissioner to federal and provincial governments. They suggested appropriate enhancements, which have been incorporated into our practices. One of the most interesting was to consider a part-time external advisor on conflicts and ethical conduct. We plan to appoint such an advisor with[illegible] next year.

In exercising its responsibilities, the board uses techniques gaining popularity in the corporate sector, such as sessions without management present and performance evaluations of the board itself and individual directors. These approaches facilitate consensus and enable the board to speak with one voice in dealing with change.

The board's responsibility for management oversight includes evaluating the performance and setting the compensation of management. Senior executives can receive annual bonuses for achieving corporate objectives approved by the board. They are also eligible for long-term incentives that are deferred and paid out after three years. The subsequent payout from the long-term incentive is adjusted by the absolute performance of the CPP Investment Board assets. In fiscal 2003, for example, the accrued incentives for prior years diminished by the same proportion as the decline in the organization's investment returns.

Effective accountability requires experienced directors whose expertise aligns well with the CPP Investment Board's strategic direction. An external nominating committee, appointed by the federal and provincial finance ministers and chaired by an experienced private sector chief executive and corporate director, is responsible for replenishing the board as the terms of members expire. As a result of their efforts we welcomed Germaine Gibara and Ronald Smith to the board late last fiscal year.

On his retirement from the board, I thank Dick Thomson for his enormous contribution as a founding director and Chair of the Human Resources and Compensation Committee. I also thank John MacNaughton, our chief executive officer, for his constructive dialogue with me as Chair and the board during the past year.

Gail Cook-Bennett

Gail Cook-Bennett, *Chairperson*

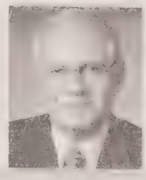
The process by which directors are appointed is a departure from the traditional practice for crown corporations. An external nominating committee appointed by federal and provincial finance ministers, and chaired by an individual from the private sector, nominates candidates. The federal minister selects candidates from the committee's nominating list in consultation with provincial counterparts.

A BOARD WITH BROADLY BASED EXPERTISE

Chairperson

GAIL COOK-BENNETT
Economist.
Corporate director.
Former professor.

DALE G. PARKER
Corporate director.
Former financial executive.



MARY C. ARNOLD
Chartered accountant.
Management consultant.
Corporate director.

M. JOSEPH REGAN
Retired bank executive.

GERMAINE GIBARA
Chartered financial analyst. Management consultant.
Corporate director.

HELEN SINCLAIR
Financial executive.

GILBERT GILL
Chartered accountant.
Former provincial deputy finance minister.

RONALD SMITH
Chartered accountant.
Chief financial officer.

JACOB LEVI
Actuary.

DAVID WALKER
Business consultant.

HELEN M. MEYER
Chartered business valuator.

For a fuller description of board and committee responsibilities and membership, see governance section on pages 35-38.

PRESIDENT'S REPORT: LONG-TERM INVESTING IN CHALLENGING TIMES

JOHN A. MACNAUGHTON

The year ended March 31, 2003 was difficult for pension fund fiduciaries around the world. Global equity markets continued their punishing slump, producing some of the worst returns in a century, while fixed income markets delivered solid returns, as interest rates fell.

Because a relatively high percentage of Canada Pension Plan assets was invested in fixed income securities, losses were mitigated but not eliminated. The overall consolidated investment loss for the year was approximately $1.1 billion for a return of minus 1.5 percent, compared with a $2.3 billion gain in the previous fiscal year for a positive 5.7 percent return.

At March 31, 2003 the assets of the Canada Pension Plan consisted of $38.1 billion in fixed income securities administered by the Department of Finance in Ottawa and $17.5 billion in equities and real estate managed by the CPP Investment Board in Toronto.

The fixed income securities, representing approximately 69 percent of total CPP assets, consisted of $31.0 billion in federal and provincial government bonds and $7.1 billion in an interest bearing cash deposit. These assets earned $3.0 billion for a positive return of 8.4 percent, compared with income of $2.0 billion and 5.0 percent in 2002.

CPP Investment Board assets at March 31, 2003 were 31 percent of CPP assets, consisting of 89 percent public equities, nine percent private equities and two percent real estate. This portfolio lost $4.1 billion during the year for a negative 21.1 percent return, compared with income of $316 million and a positive 3.4 percent return in the previous year.

The discouraging equity markets did not distract us from advancing in a variety of areas important to our future:

- Public equities were transferred from pooled and mutual index funds managed by external investment firms to our own segregated account at a new custodian; a trade order management system was selected and is in the process of being installed; and internal cash and derivatives trading capabilities were developed.

- Transition managers were retained to assist us in investing large amounts of cash in domestic and foreign markets with minimal market impact.

- Responsibility for investing our passive public equity portfolio was transferred from external managers to internal management, saving potentially millions of dollars in fees on a sustainable basis each year.

These foundation-building initiatives enable us to undertake different approaches to passive equity management or to mitigate costs and to introduce active management strategies where we identify opportunities to add value.

Other important accomplishments during the year included:

- The documentation of investment beliefs shared by our directors and management as the foundation for consistent and integrated decision making.

- The continued diversification of CPP assets into private equities and the acquisition of our first private real estate investments.

- The preliminary modification of our passive Canadian equity portfolio to include a broader selection of stocks than those listed in the S&P/TSX Composite Index and other index weighting adjustments.

- Development of our proxy voting principles and guidelines, available on our web site at www.cppib.ca. We vote shares in support of resolutions judged likely to increase the long-term value of CPP investments and stimulate disclosure of information relevant to assessing the possible impact of corporate behaviour on long-term investment prospects.

- The strengthening of our operational and investment teams with the hiring of nine new professionals and support staff, bringing our human resources to 35 people.

In the year ahead, we will focus on three areas:

First, the CPP bond and cash portfolio is scheduled to be transferred to the stewardship of the CPP Investment Board. This new responsibility will require

some additional staff. It will also influence our investment and organizational strategies as we manage assets to ensure the Canada Pension Plan has access to cash required to meet benefit payments.

Second, identifying and implementing successful active investment strategies is becoming more important as return expectations for both equity and debt markets are lower than the realized returns of the last 20 years of the twentieth century.

Third, the assets we are directly responsible for will quadruple from approximately $17.5 billion today to almost $80 billion over the next three years, necessitating our giving ongoing priority to long-term total portfolio design, the development of new benchmarks and risk management, and the continued diversification of the portfolio.

We expect the years ahead to be difficult ones for investors due to the uncertain global economic and geopolitical outlook. We expect market returns below those enjoyed during the 1980s and 1990s. Still, we continue to believe that the investment environment will be constructive for the CPP Investment Board. We will receive substantial cash flows for investment over the next two decades. As a result, we can build and diversify our portfolio steadily and patiently, while remaining focused on the long term. Investing during declining markets requires fortitude. Capital markets history gives us confidence that we are right in staying the course.

I thank our management team and employees for their dedication and hard work. On their behalf, I thank our board of directors for its support and wise counsel as we work together to serve the interests of the 16 million Canadians who are counting on us to help secure the promise of the Canada Pension Plan.

John A. MacNaughton, *President and Chief Executive Officer*

MANAGEMENT'S DISCUSSION AND ANALYSIS

The annual report contains forward-looking statements reflecting management's objectives, outlook and expectations as of the date of this report. These statements involve risks and uncertainties. Our investment activities may therefore vary from the strategies outlined in these forward-looking statements.

The CPP Investment Board invests cash not required by the Canada Pension Plan to pay current benefits. Our legislated mandate is to achieve a maximum rate of return without undue risk of loss, having regard to the factors that may affect the funding of the Canada Pension Plan and its ability to meet its financial obligations.

The funding of the Canada Pension Plan is determined by the federal and provincial finance ministers, who meet every three years to review contribution rates, benefit levels, funding policy and other aspects of the plan. As of January 1, 2003, the combined contribution rate of Canadian workers and their employers was 9.9 percent of pensionable earnings (to a maximum of $39,900 for 2003).

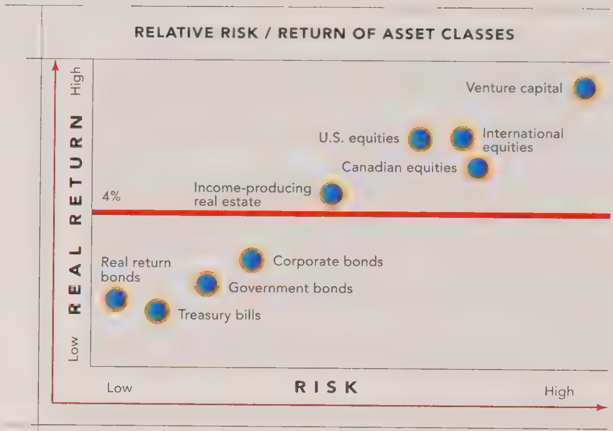
The Chief Actuary for the Canada Pension Plan has estimated that the 9.9 percent contribution rate could be sustained for the foreseeable future if CPP assets earn a four percent annual real rate of return over the long term. (The real rate of return excludes inflation. If inflation averaged three percent per annum, the nominal rate of return required would be seven percent.) In the opinion of the Chief Actuary, a review panel of independent actuaries, and the finance ministers, the plan is financially sound until the year 2075.

Our investment challenge In seeking to maximize returns without undue risk of loss, our minimal goal is to achieve a four percent real rate of return. This can be a difficult target to match every year, based on an historical analysis of the investment performance of such standard assets as bonds and stocks

When the CPP Investment Board became operational in October 1998, the Canada Pension Plan's only assets were government bonds and cash. As the accompanying chart shows, government bonds do not produce the level of real returns required by the Canada Pension Plan.

"DIVERSIFYING INTO A BROADER RANGE OF ASSETS WILL HELP MEET THE LONG-TERM RETURN TARGETS NEEDED TO SUSTAIN THE CPP, WHILE MANAGING OVERALL PORTFOLIO RISK."

VALTER VIOLA,
Vice President, Research and Risk Management



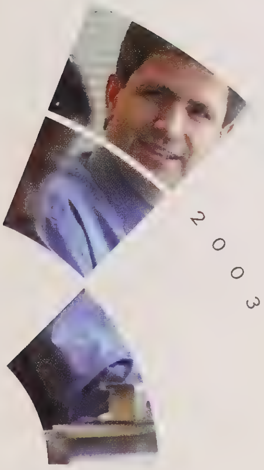
To achieve higher returns than bonds, we must acquire assets that have greater risk. Our most logical choice, at least initially, was publicly traded equities. History indicates that, over the long term and despite greater volatility including short-term periods of negative performance, equities should provide higher returns than bonds to compensate for the greater risk assumed. Other assets produce different expected returns in relation to risk. For example, private equities offer potentially higher returns than publicly traded equities to compensate for their lower liquidity. Real estate has a risk/return profile somewhere between government bonds and equities.

The diversification of CPP assets remains a continuing priority to spread portfolio risk among more asset classes and to ensure an asset mix that earns a real return that exceeds four percent.

The following table offers a snapshot of all CPP assets as of March 31, 2003. The assets are grouped according to those managed by the CPP Investment Board in Toronto and those administered on behalf of the Canada Pension Plan by the federal government in Ottawa. Starting in fiscal 2004, all CPP assets not held by the CPP Investment Board are expected to be transferred to it on a phased basis over three years. By fiscal 2007, all CPP assets, including cash, should be carried on our balance sheet.

Government Bonds The bond portfolio consists of provincial government bonds as well as some federal bonds. These securities are non-marketable and non-tradeable. Details of their maturities are posted on our web site. The provinces and territories have one opportunity to renew maturing bonds issued

TOTAL CPP ASSETS As at March 31, 2003	$ Billions	% of Total
Canada Pension Plan		
Government Bonds	31.0	55.8
Cash	7.1	12.8
Subtotal	38.1	68.6
CPP Investment Board		
Public Equities	15.6	28.0
Private Equities	1.5	2.7
Real Estate	0.3	0.6
Money Market Securities	0.1	0.1
Subtotal	17.5	31.4
Total Assets	55.6	100.0



prior to 1998 for a further 20 years at market rates. Should bonds not b renewed, the principal amount will be invested by the CPP Investment Board

More than three-quarters of the bond portfolio matures within the next 10 years If provinces choose to roll them over, the last of the bonds may not mature until 2033.

Public Equities Since inception, we have invested excess CPP funds in equities principally publicly traded stocks, with the expectation of earning a long-term premium over bonds. According to the Chief Actuary's assumptions, on an annual basis, CPP contributions should exceed pension payments until 2021 This means that investment earnings are not expected to be required to help pay pensions for 18 years. We can, therefore, take advantage of poor markets to accumulate equities at current prices in the expectation of higher values in future decades.

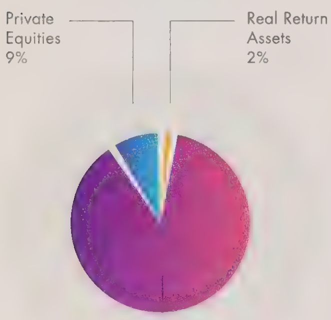
The other reason we invest in public equities is to diversify total C Stocks and bonds tend not to move in the same direction in the same n at the same time, thereby reducing portfolio risk and somewhat stabilizing r

Until fiscal 2003, our investment in public equities was primarily in index funds managed by outside specialists. These index funds are designed to replicate the stocks included in the S&P/TSX Composite Index in Canada, the S&P 500 Index in the United States, and the MSCI EAFE Index of stocks for Europe Australasia and the Far East. In total, the indexes contain appr 1,700 stocks.

"WHILE BEING A LARGE INVESTOR CREATES SOME CHALLENGES, IT ALSO CREATES SIGNIFICANT OPPORTUNITIES – ECONOMIES OF SCALE TO NAME THE MOST OBVIOUS."

DONALD M. RAYMOND,
Vice President, Public Market Investments

CPP INVESTMENT BOARD ASSETS
Fiscal year ending March 31, 2003



In fiscal 2003, we brought the management of these passive portfolios in-house to reduce costs and to facilitate the future implementation of our active program on a global basis. We then took our first steps to customize the passive portfolio. For example, when the TSE 300 Composite Index in Canada was replaced by the S&P/TSX Composite Index, we retained ownership of companies deleted from the new index. At year end, our passive portfolio contained 85 small-cap companies not included in the new S&P/TSX index. We believe these smaller companies will do well over the long term. We also reduced our weighting in financial services stocks below their representation in the S&P/TSX index. This risk management initiative reduced the concentration in the financial services sector of the portfolio, much as we did two years ago when we reduced our Nortel Networks position when it dominated the Canadian market.

As a result of these modifications, we expect the performance of our public equity portfolio to start experiencing greater variances to widely recognized broad market benchmarks, such as the S&P/TSX index.

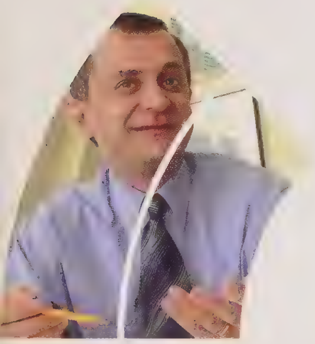
We retained transition managers to help us invest large amounts of capital received from the Canada Pension Plan while attempting to minimize market disruption and cost. These initiatives were the prelude to a different passive investing approach that will emerge in fiscal 2004.

Private Equities While private equities are a small component of total CPP assets, they can contribute exceptional returns over the long term for the extra risk involved. However, these specialized investments need time to deliver full value. Our ultimate goal is to invest as much as 10 percent of CPP assets in private equities, subject to the availability of opportunities with acceptable risk/return profiles.

We made our first commitments to private equity in July 2001. Our approach involves selecting investment specialists, known as general partners, who are experienced in developing and managing portfolios of private companies. Usually they focus on specific industries and deploy a range of management techniques, including strategic advice, operating expertise, financial restructuring, and initiating mergers and acquisitions. We commit funds with like-minded investors under a limited partnership agreement, and the general partner draws down the funds as suitable investments are identified.

By the end of fiscal 2003, we had committed $5.1 billion to private equity, including $1.1 billion in Canada. These funds were pledged to 34 pooled funds managed by 29 general partners in Canada, the U.S., the United Kingdom and Europe. Of these commitments, $1.5 billion had actually been invested. The remaining commitments will be drawn down over the next few years.

Our largest transaction in fiscal 2003 was the acquisition with other institutional investors of a private equity portfolio from Deutsche Bank. The portfolio has equity interests in more than 80 late-stage private companies in Europe and the U.S. It is being managed through a new limited partnership established by the former senior managers of Deutsche Bank's private equity arm. Our commitment was just over $400 million.



"PRIVATE EQUITY INVESTING REQUIRES PATIENCE TO MAXIMIZE VALUE BECAUSE HIGHER RETURNS ARE TYPICALLY NOT GENERATED UNTIL SEVEN OR EIGHT YEARS AFTER CAPITAL IS INVESTED."

MARK A. WEISDORF,
Vice President, Private Market Investments

Real Estate and Infrastructure Assets The final component of our asset diversification strategy to date is real estate. Coupled with infrastructure assets, they may comprise as much as five percent of total CPP assets in the future. Real estate and infrastructure assets tend to be inflation sensitive and at least partially hedge the inflation exposure of CPP benefits to changes in the Consumer Price Index.

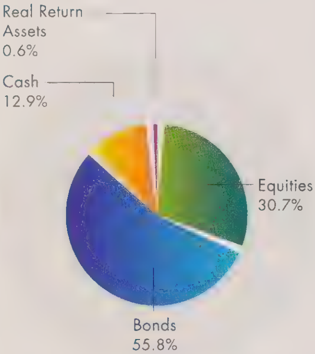
We initiated our exposure to real estate through investments in publicly traded securities, including those of Trizec Canada where we acquired approximately 30 percent of the company. The year-end real estate portfolio included shares in three publicly traded real estate companies.

In January 2003, we committed up to $300 million to two real estate investment firms for future asset acquisitions. Our strategy is to co-own properties with value-added growth potential over normal real estate cycles of five to ten years. One of our partners completed our first co-owned direct investment, for a total purchase price of $300 million, in five Canadian regional shopping centres. Over time, we will develop a diversified portfolio of industrial, office, retail and multi-family residential properties that generate rental income and appreciate in value through restructuring and refinancing, new lease arrangements, changes in property use, redevelopment and renovation, and changes in tenant mix.

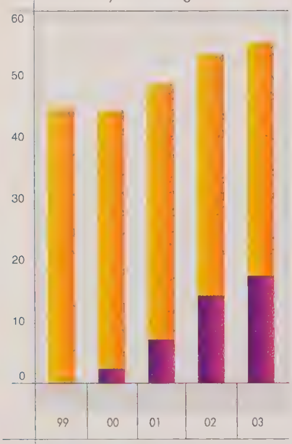
While we examined a number of infrastructure opportunities during fiscal 2003, none of them met our investment criteria.

PERFORMANCE REVIEW

CONSOLIDATED CPP ASSETS
Fiscal year ending March 31, 2003



CONSOLIDATED CPP ASSETS ($ billions)
Fiscal years ending March 31



The following discussion reviews the performance of total CPP assets, recognizing that the CPP Investment Board must take all the assets and liabilities of the Canada Pension Plan into consideration in making investment decisions. However, only the CPP assets managed by the CPP Investment Board are currently included in our financial statements. The market value and rates of return for fixed income securities are estimates by the CPP Investment Board.

Asset growth In fiscal 2003, total assets available to the Canada Pension Plan grew by $2.0 billion to $55.6 billion. The asset distribution is shown in the adjacent pie chart. The CPP Investment Board received $7.3 billion in cash flows from the Canada Pension Plan, compared with $6.8 billion in fiscal 2002. These cash flows from excess CPP contributions and bonds were invested in equities and real estate.

Since 1999, the consolidated CPP assets have grown by more than $11 billion, of which approximately half was from excess contributions and half from investment income.

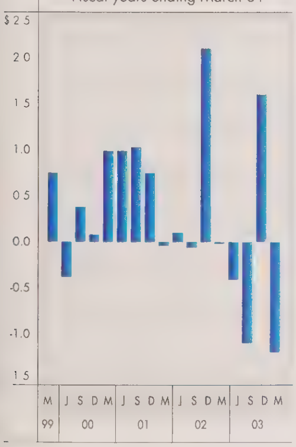
Overall Performance Total CPP assets incurred a $1.1 billion loss in fiscal 2003, compared with a $2.3 billion gain in fiscal 2002. The estimated nominal rate of return was a negative 1.5 percent, versus a positive 5.7 percent the previous year. The fiscal 2003 performance was well below the long-term real return actuarial assumption. However, it was somewhat better than most other Canadian public sector pension funds because CPP assets include a much higher proportion of fixed income securities and a much lower proportion of equities than most other large pension funds.

The fixed income portfolio performed well in a falling interest rate environment. (When interest rates fall, bond values increase. Conversely, when interest rates rise, bond values decline). Combined with the cash deposits, which earn interest similar to short-term government securities, the fixed income assets generated income of $3.0 billion, compared with $2.0 billion in fiscal 2002. The rate of return on fixed income assets was 8.4 percent, compared with 5.0 percent during the previous year.

The bond performance helped to offset equity and real estate losses, which totalled $4.1 billion in fiscal 2003 for a negative 21.1 percent rate of return.

CONSOLIDATED CPP RETURNS (%)
Fiscal years ending March 31

CONSOLIDATED CPP RETURNS ($ billions)
Fiscal years ending March 31



In fiscal 2002, equities earned $316 million producing a 3.4 percent rate of return. Global stock markets have experienced their longest and steepest deterioration in a century after peaking in 2000. Since investing the first CPP dollar in March 1999, our cumulative equities and real estate loss is approximately $4.1 billion. Given our very long-term investment horizon, and our expectation that we will not need to contribute investment earnings to the Canada Pension Plan for at least 18 years, we have ample time to build the equity portfolio at advantageous prices during this difficult period in capital markets. Despite the disappointing short-term results, this is a good time for an organization with large and regular cash flows to invest. Most of these investments are in well-managed companies with profitable growth strategies. Consequently, they are likely to remain in the portfolio for decades.

On a quarterly basis, consolidated returns have been highly volatile, as the adjacent charts confirm.

Performance versus Benchmarks The performance of Canadian and non-Canadian equities is measured against composite benchmarks that are based on the returns for market indexes for publicly traded equities. Real estate is measured against the Consumer Price Index (a measure of inflation) plus 4.5 percent. The performance of our portfolios versus their benchmarks for the first four full fiscal years that the CPP Investment Board has been investing is described in the following table. (We do not benchmark the government bond and cash portfolio because these securities are not managed by the CPP Investment Board.)

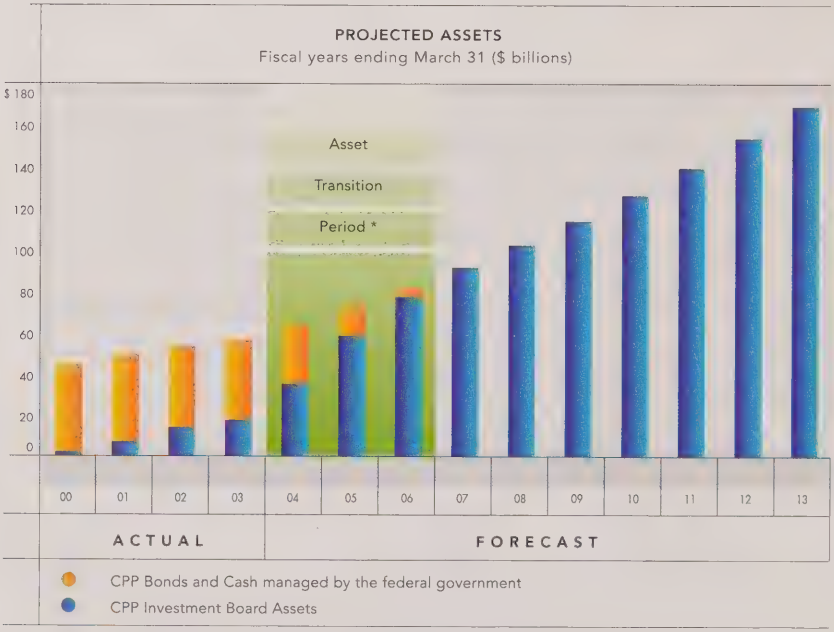
EQUITY AND REAL ESTATE RETURNS (%)	2003		2002		2001		2000	
Fiscal years ended March 31	Actual	BM*	Actual	BM	Actual	BM	Actual	[illegible]
Canadian Equities	(17.3)	(17.5)	5.9	4.7	(7.7)	(18.6)	45.3	[illegible]
Non-Canadian Equities	(27.6)	(28.0)	(2.3)	(2.8)	(17.5)	(18.2)	16.6	16.1
Real Estate	(50.7)	9.2	2.6	1.1	–	–	-	
Total	(21.1)	(20.3)	3.4	2.4	(9.4)	(17.8)	40.1	39.[illegible]

* *Benchmark*

Our legislation requires us to comply with the foreign property rule and invest at least 70 percent of assets at cost in Canada, which we strictly adhere to. The remaining 30 percent was divided last year between U.S. and non-North American equities, most notably in Europe. On a market value basis, 68 percent of assets were invested in Canada.

The CPP Investment Board portfolio underperformed the benchmark in fiscal 2003 because our real estate holdings lost half their value as a result of the change in the market's near-term outlook for Trizec Canada, in which we have made a large strategic investment. The impact of the reduction in the value of our real estate holdings on the CPP Investment Board portfolio was approximately 106 basis points. This was partially offset by an outperformance of 26 basis points on other parts of the portfolio resulting in an 80 basis points overall underperformance.

Looking Ahead We expect that equity returns will be more modest in the next 10 years than they were in the past two decades. With interest rates near 40-year lows, the return on fixed income assets over the next few years is also



* CPP Bonds and Cash currently managed by the federal government are expected to be transferred to the CPP Investment Board during this period

likely to be moderate. In other words, the market outlook for both stocks and bonds will be challenging, making it difficult to consistently achieve a four percent real return for the Canada Pension Plan.

We expect the three-year process of transferring the government bond portfolio to our balance sheet to begin in fiscal 2004. Bonds will continue to form an important part of CPP assets for the foreseeable future.

We also expect to assume responsibility in fiscal 2004 for providing cash to the CPP so it can meet benefit payments. Cash not required to pay benefits will be invested to maximize returns without undue risk of loss.

The transfer of all CPP assets to the CPP Investment Board will increase our Canadian investment content and provide increased latitude in making investments outside Canada in compliance with the foreign property rule.

"WE USE AN ENTERPRISE-WIDE APPROACH TO IDENTIFY KEY RISKS OF THE ORGANIZATION AND TO MANAGE AND MONITOR THESE RISKS EFFECTIVELY."

JANE NYMAN,
Vice President, Finance and Operations

In fiscal 2004 we will begin to implement a new strategy for publicly traded equities, moving from traditional index investing to a sectoral approach, which will reflect the make-up of the global economy. From the global perspective, Canada is under-represented in some sectors, such as health care and technology, and over-represented in others, such as energy, financial services and basic materials. A sectoral investment approach will facilitate more efficient asset allocation and take into account factors that affect the long-term funding of the CPP.

We will continue to allocate funds to private equity and real estate. In addition to our current value-added real estate portfolio, we will develop a second real estate strategy to build a portfolio of high-quality core properties that will be held for the long term. We will be patient in creating this portfolio, recognizing that premier properties in Canada and elsewhere are available infrequently and even then not necessarily at acceptable prices.

We hope to expand our real return assets beyond real estate to include infrastructure assets as well as real return bonds if we can find investments that meet our disciplined criteria. Infrastructure assets may include pipelines, electrical utilities, roads, bridges, schools and hospitals. Real return bonds are a good match with pension liabilities because they are indexed to inflation, but are currently unavailable in meaningful amounts.

INVESTMENT PARTNERS AND EXTERNAL SERVICE PROVIDERS

Advent International
Apollo Management
Barclays Global Investors
The Blackstone Group
Bloomberg L.P.
Borealis Capital
Brascan Financial Corporation
Bridgepoint Capital
Candover Investments
The Carlyle Group
Celtic House
Clairvest Group Inc.
Cleary, Gottlieb, Steen & Hamilton
Coller Capital
DST International Ltd
Davies Ward Phillips & Vineberg LLP
Deloitte & Touche LLP
Edgestone Capital Partners
Fairvest Corporation - An ISS Company
Frank Russell Securities, Inc
GM Asset Management
Goldberg Lindsay & Co.
Goodmans LLP
Heartland Industrial Partners
JPMorgan Partners
KPMG LLP
Kensington Capital Partners
LaSalle Investment Management (Canada)
Lexington Capital Partners
Matlin Patterson Global Opportunities Partners
McCarthy Tétrault LLP
MidOcean Partners
MDS Capital Corp.
MPM Capital
NIB Capital Private Equity
Norton Rose
Osler, Hoskin & Harcourt LLP
Osmington Inc.
PAI Management
Paul Capital Partners
Schroder Ventures Life Sciences
Skypoint Capital
State Street
Stikeman Elliott LLP
TD Quantitative Capital
Thomas Weisel Partners Merchant Banking
Testa, Hurwitz & Thibeault, LLP
Torys LLP
XBase Technologies

CPP Investment Board Operations The CPP Investment Board is a lean organization. We ended fiscal 2003 with a staff of 35, an increase of nine since the previous year end. The cost of running the organization totalled $12.9 million in fiscal 2003, compared with $11.4 million in the prior year. The 2003 expenses were 7 basis points, or 7 cents per $100 of invested assets, compared with 9 basis points, or 9 cents per $100 of invested assets, in fiscal 2002.

The increased expenses reflected the hiring of new staff, expanded operations, increased technical, data and analytical services, and the transparency of custody fees as a result of the transfer from externally managed pooled funds to a segregated account.

Our small and highly focused organization is augmented by relationships with more than 49 external firms that implement components of our investment and operating strategies. A key component of our enterprise-wide approach to managing risk is the on-going monitoring of the performance of outside partners in implementing our strategies. Outsourcing provides the CPP Investment Board with access to a greater pool of experienced talent than would be possible to hire solely as staff. In most cases, our investment partners put their own capital at risk when making our investments.

Investment and administrative fees are expected to rise as the assets under management grow. Investment and administrative expenses are detailed in the financial statements on pages 32-34.

Corporate Objectives The regulations in our legislation require the CPP Investment Board to publish in the annual report a statement of objectives for the past year and the extent to which those objectives were met, as well as a statement of objectives for the next year and the foreseeable future.

For fiscal 2003, we set out four objectives. One was to adjust our passive equity investing strategy to enhance long-term returns. We did this by moving the management of three index funds from external to internal management and pooling the funds in a single passive portfolio. We also began a derivatives program to improve our cash liquidity and enhance risk-adjusted returns. A second objective was to initiate active public market investment programs to

complement our active private equity investing. The foundation for this program was substantially advanced during the year and it will be completed in 2004. We established the infrastructure and other controls to initiate active public investment programs, although implementation was deferred while we focused on other priorities.

A third fiscal 2003 objective was to implement an internal audit function to augment the external audit function within an enterprise-wide risk management approach. The Audit Committee of the board of directors appointed KPMG as our internal auditor. The firm is actively discharging its duties. The fourth objective was to enhance performance measurement and attribution reporting. We implemented new processes to prepare the organization for increased activities in fiscal 2004.

For fiscal 2004 and beyond, we have identified six corporate objectives. One is a full review by management with the board of directors of our strategic direction. In part, this will be driven by the pending transfer of all CPP assets to our care. A related objective is to provide cash liquidity to the Canada Pension Plan so that it can meet its payment obligations. This objective is contingent on the CPP cash deposits being transferred to the CPP Investment Board as proposed in federal legislation passed by Parliament and now requiring provincial consent.

"Expert legal advice helps us discharge our statutory and fiduciary duties, as well as structure complex transactions that help achieve our investment objectives."

Jane Beatty,
Vice President, General Counsel and Corporate Secretary

Two further objectives relate to our public equity investing. Subject to the approval of the board of directors, we propose to move from traditional passive index investing on a regional basis, such as Canada, the United States and non-North American markets, to one based primarily on economic sectors, recognizing our legislated foreign property restrictions. This approach should enhance long-term risk-adjusted returns. We also plan to expand the active management of public equities by retaining outside specialists.

A fifth objective is to search for attractive real return assets, such as real estate, infrastructure assets and real return bonds.

Finally, we will strengthen our enterprise-wide risk management system by expanding controls over and monitoring of external service providers.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of the Canada Pension Plan Investment Board (the "CPP Investment Board") have been prepared by management and approved by the Board of Directors. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The financial statements include certain amounts based on management's judgments and best estimates where deemed appropriate. Management is responsible for the integrity and reliability of the financial statements and the financial information contained within the annual report.

The CPP Investment Board develops and maintains systems of internal control and supporting procedures. They are designed to provide reasonable assurance that assets are safeguarded, records are properly maintained and transactions are properly authorized and are in accordance with the *Canada Pension Plan Investment Board Act* and the accompanying regulations and the by-laws and investment policies of the CPP Investment Board. These controls include the establishment of an organizational structure that provides a well-defined division of responsibilities and accountability, the selection and training of qualified staff, and the communication of policies and guidelines throughout the organization. Internal controls are reviewed and evaluated by both internal and external auditors in accordance with their respective annual audit programs approved by the Audit Committee.

The Audit Committee assists the Board of Directors in discharging its responsibility to approve the annual financial statements. The Committee meets regularly with both management and the internal and external auditors to discuss the scope and findings of audits and other work they may be requested to perform from time to time, to review financial information and to discuss the adequacy of internal controls. The Committee reviews and approves the annual financial statements and recommends them to the Board of Directors for approval.

The CPP Investment Board's external auditors, Deloitte & Touche LLP, have conducted an independent examination of the consolidated financial statements in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express an opinion in their Auditors' Report. The external auditors have full and unrestricted access to management and the Audit Committee to discuss any findings related to the integrity and reliability of the CPP Investment Board's financial reporting and the adequacy of internal control systems.

JOHN A. MACNAUGHTON
President and Chief Executive Officer

JANE NYMAN
Vice President – Finance and Operations

INVESTMENT CERTIFICATE

The *Canada Pension Plan Investment Board Act* (the "Act") requires that a certificate be signed by a director on behalf of the Board of Directors, stating that the investments of the CPP Investment Board held during the year were in accordance with the Act and the CPP Investment Board's investment policies, standards and procedures. Accordingly, the Investment Certificate follows.

The investments of the CPP Investment Board, held during the year ended March 31, 2003, were in accordance with the *Canada Pension Plan Investment Board Act* and the CPP Investment Board's Investment Statement and Investment Policies.

Mary C. Arnold

MARY C. ARNOLD, FCA
Chair of the Audit Committee on behalf of the Board of Directors, May 8, 2003

AUDITORS' REPORT

TO THE BOARD OF DIRECTORS
CANADA PENSION PLAN INVESTMENT BOARD

We have audited the consolidated balance sheet and the consolidated statement of investment portfolio of the Canada Pension Plan Investment Board (the "CPP Investment Board") as at March 31, 2003 and the consolidated statements of income/(loss) and accumulated net loss from operations and of changes in net assets for the year then ended. These consolidated financial statements are the responsibility of the CPP Investment Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the CPP Investment Board and the investments held as at March 31, 2003 and the results of its operations and changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

Further, in our opinion, the transactions of the CPP Investment Board that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with the *Canada Pension Plan Investment Board Act* (the "Act") and the by-laws.

Further, in our opinion, the record of investments kept by the CPP Investment Board's management pursuant to paragraph 39(1)(c) of the Act fairly presents, in all material respects, the information required by the Act.

Deloitte & Touche LLP

CHARTERED ACCOUNTANTS
Toronto, Ontario, May 2, 2003

CONSOLIDATED BALANCE SHEET

As at March 31, 2003 ($000's)	2003	2002
ASSETS		
Investments (Note 2)	**$ 17,861,767**	$ 14,289,378
Investment receivables (Note 2c)	**40,624**	—
Due from brokers	**35,005**	2,343
Premises and equipment	**1,112**	1,278
Other assets	**980**	79
TOTAL ASSETS	**17,939,488**	14,293,078
LIABILITIES		
Investment liabilities (Note 2)	**449,757**	—
Due to brokers	**34,497**	3,382
Accounts payable and accrued liabilities	**4,490**	4,730
TOTAL LIABILITIES	**488,744**	8,112
NET ASSETS	**$ 17,450,744**	$ 14,284,966
NET ASSETS, REPRESENTED BY		
Share capital (Note 4)	**$ —**	$ —
Accumulated net loss from operations	**(4,238,916)**	(86,626)
Accumulated Canada Pension Plan transfers	**21,689,660**	14,371,592
NET ASSETS	**$ 17,450,744**	$ 14,284,966

On behalf of the Board of Directors

Gail Cook-Bennett

Mary C. Arnold

GAIL COOK-BENNETT
Chairperson

MARY C. ARNOLD, FCA
Chair of the Audit Committee

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF INCOME/(LOSS) AND ACCUMULATED NET LOSS FROM OPERATIONS

Year ended March 31, 2003 ($000's)	**2003**	2002
INVESTMENT INCOME/(LOSS) (Note 6)	**$ (4,139,424)**	$ 316,034
INVESTMENT AND ADMINISTRATIVE EXPENSES		
Salaries and benefits (Note 7a)	**4,796**	4,283
General operating expenses (Note 7b)	**4,835**	3,204
External investment management fees	**1,809**	2,951
Professional and consulting fees (Note 7c)	**1,426**	970
	12,866	11,408
NET INCOME/(LOSS) FROM OPERATIONS	**(4,152,290)**	304,626
ACCUMULATED NET LOSS FROM OPERATIONS, BEGINNING OF YEAR	**(86,626)**	(391,252)
ACCUMULATED NET LOSS FROM OPERATIONS, END OF YEAR	**$ (4,238,916)**	$ (86,626)

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

Year ended March 31, 2003 ($000's)	**2003**	2002
NET ASSETS, BEGINNING OF YEAR	**$ 14,284,966**	$ 7,154,169
CHANGES IN NET ASSETS		
Canada Pension Plan transfers (Note 5)	**7,318,068**	6,826,171
Net income/(loss) from operations	**(4,152,290)**	304,626
INCREASE IN NET ASSETS FOR THE YEAR	**3,165,778**	7,130,797
NET ASSETS, END OF YEAR	**$ 17,450,744**	$ 14,284,966

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF INVESTMENT PORTFOLIO

The CPP Investment Board's investments, before allocating derivative contracts and associated money market securities and other investment liabilities and receivables to the asset classes to which they relate, are as follows:

	Fair Value	
As at March 31, 2003 ($000's)	**2003**	2002
EQUITIES (Note 2)		
Canada		
Public markets	**$ 11,050,810**	$ 9,824,428
Private markets	**260,609**	144,207
	11,311,419	9,968,635
Non-Canada		
Public markets	**4,245,184**	3,832,505
Private markets	**1,264,851**	316,051
	5,510,035	4,148,556
TOTAL EQUITIES (Cost: $20,335,762; 2002 – $14,546,009)	**16,821,454**	14,117,191
REAL RETURN ASSETS (Note 2b)		
Public markets real estate	**218,488**	145,141
Private markets real estate	**246,484**	—
TOTAL REAL RETURN ASSETS (Cost: $644,914; 2002 – $144,442)	**464,972**	145,141
NOMINAL FIXED INCOME		
Money market securities[1] (Cost: $575,377; 2002 – $27,046)	**575,341**	27,046
TOTAL INVESTMENTS	**17,861,767**	14,289,378
INVESTMENT RECEIVABLES (Note 2c)		
Dividends receivable[2]	**40,272**	—
Accrued interest	**352**	—
TOTAL INVESTMENT RECEIVABLES (Cost: $40,716; 2002 – $Nil)	**40,624**	—
INVESTMENT LIABILITIES		
Due to private equity partnerships (Note 2d)	**(171,972)**	—
Debt on real estate properties (Note 2b)	**(152,000)**	—
Credit facility (Note 3)	**(125,000)**	—
Derivative liabilities (Note 2a)	**(785)**	—
TOTAL INVESTMENT LIABILITIES (Cost: $452,067; 2002 – $Nil)	**(449,757)**	—
NET INVESTMENTS	**$ 17,452,634**	$ 14,289,378

[1] As described more fully in Note 2a, at March 31, 2003, $250 million of money market securities, together with Canadian equity index swaps, provide additional exposure to Canadian public market equities.

[2] At March 31, 2002, the CPP Investment Board held units of pooled and mutual funds and did not receive dividends directly in respect of these investments.

See accompanying Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF INVESTMENT PORTFOLIO

The CPP Investment Board's investments, after allocating derivative contracts and associated money market securities and other investment liabilities and receivables to the asset classes to which they relate, are as follows:

As at March 31, 2003 ($000's)	**2003**		2002	
	Fair Value	**(%)**	Fair Value[5]	(%)
EQUITIES				
Canada[1]	**$ 11,560,652**	**66.2%**	$ 9,968,635	69.8%
Non-Canada[2]	**5,510,035**	**31.6%**	4,148,556	29.0%
REAL RETURN ASSETS				
Real estate[3]	**312,972**	**1.8%**	145,141	1.0%
NOMINAL FIXED INCOME				
Money market securities[4]	**68,975**	**0.4%**	27,046	0.2%
	$ 17,452,634	**100.0%**	$ 14,289,378	100.0%

[1] Includes derivative contracts and associated money market securities as described more fully in Note 2a.

[2] Includes private equity liabilities offset by money market securities held to discharge those liabilities.

[3] Net of mortgage debt on real estate properties as described more fully in Note 2b.

[4] Includes credit facility liability, accrued interest and dividends receivable.

[5] For the year ended March 31, 2002, there were no derivative contracts or investment liabilities or receivables and therefore no allocations were required.

See accompanying Notes to the Consolidated Financial Statements

ORGANIZATION

The Canada Pension Plan Investment Board (the "CPP Investment Board") was formed pursuant to the *Canada Pension Plan Investment Board Act* (the "Act"). The CPP Investment Board is responsible for managing amounts that are transferred to it under Section 111 of the *Canada Pension Plan* in the best interests of the beneficiaries and contributors under that Act. The amounts are to be invested with a view to achieving a maximum rate of return without undue risk of loss, having regard to the factors that may affect the funding of the Canada Pension Plan (the "CPP") and the ability of the CPP to meet its financial obligations.

The CPP Investment Board has a fiscal year end of March 31.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF PRESENTATION

These financial statements present the consolidated financial position and operations of the CPP Investment Board and its wholly-owned subsidiaries. The financial statements include only a portion of the assets (as described in Note 2) and none of the pension liabilities of the CPP. The statements have been prepared in accordance with Canadian generally accepted accounting principles and the requirements of the Act and the accompanying regulations.

Certain comparative figures have been reclassified to conform with the current year presentation.

(B) VALUATION OF INVESTMENTS

Investments are recorded as of the trade date and are stated at fair value. Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Fair value for investments is determined as follows:

(i) Quoted market prices for publicly traded equities and unit values for pooled funds are used to represent fair value for these investments. Unit values reflect the quoted market prices of the underlying securities.

(ii) In the case of private equity investments, where quoted market prices are not available, fair value is determined annually, commencing after the first year of ownership, based on carrying values and other relevant information reported by external managers of the limited partnerships in which the investments are made. These carrying values are determined by the external managers using accepted

industry valuation methods. These methodologies include considerations such as earnings multiples of comparable publicly traded companies, discounted cash flows and third party transactions, or other events which suggest material impairment or improvement in the fair value of the investment. On a quarterly basis, when there is evidence of a significant change in fair value, the valuation is adjusted, as appropriate. In the first year of ownership, cost is generally considered to be an appropriate estimate of fair value for private equity investments, unless there is an indication of permanent impairment of value.

(iii) The fair value of private market investments in income producing properties is determined annually, commencing after the first year of ownership, using accepted industry valuation methods, such as discounted cash flows and comparable purchase and sales transactions. In the first year of ownership, cost is generally considered to be an appropriate estimate of fair value for real estate. Debt on real estate investments is valued using discounted cash flows based on current market yields for instruments with similar characteristics.

(iv) Fair value for over-the-counter derivatives such as swaps is determined based on discounted cash flows and market prices for underlying assets with similar characteristics.

(v) Money market securities are recorded at cost which, together with accrued interest income, approximates fair value.

(C) INVESTMENT INCOME RECOGNITION

Investment income is recorded on the accrual basis and includes realized gains and losses on disposal or transfer of investments, unrealized gains and losses on investments held at the end of the year, dividend income (recognized on ex-dividend date), interest income, distributions from mutual and pooled funds, and net operating income from private market real estate investments.

Realized gains and losses on investments sold during the year represent the difference between sale proceeds and cost, less related costs of disposition. Unrealized gains and losses represent the year-over-year change in the difference between fair value and cost of investments.

(D) TRANSLATION OF FOREIGN CURRENCIES

Transactions in foreign currencies are recorded at the rates of exchange prevailing on the transaction date. Investments denominated in foreign currencies and held at the year end are translated at exchange rates in effect at the year end date. The resulting realized and unrealized gains and losses are included in investment income.

(E) CANADA PENSION PLAN TRANSFERS

Amounts received from the CPP are recorded on a cash basis.

(F) INCOME TAXES

The CPP Investment Board is exempt from Part I tax under paragraph 149(1)(d) of the *Income Tax Act (Canada)* on the basis that all of the shares of the CPP Investment Board are owned by Her Majesty in right of Canada. The CPP Investment Board's subsidiaries are exempt from Part I tax under paragraph 149(1)(d.2) of the *Income Tax Act (Canada)* on the basis that all of the shares of the subsidiaries are owned by a corporation whose shares are owned by Her Majesty in right of Canada.

(G) USE OF ESTIMATES

In preparing these financial statements, management makes certain estimates and assumptions which can affect the reported values of assets and liabilities, related income and expenses and note disclosures. Actual results could differ from these estimates.

2. INVESTMENTS

The CPP Investment Board has established investment policies which set out the manner in which assets shall be invested. In determining the asset mix, the CPP Investment Board takes into consideration certain assets of the CPP which are held outside of the CPP Investment Board. As at March 31, 2003, these assets totalled approximately $33.7 billion at cost (2002 – $35.0 billion) and consisted primarily of provincial debt obligations.

The Consolidated Statement of Investment Portfolio provides information on the investments and related receivables and liabilities held as at March 31, 2003.

(A) DERIVATIVE CONTRACTS

A derivative is a financial contract, the value of which is derived from the value of underlying assets, indexes, interest rates or currency exchange rates.

As at March 31, 2003, the CPP Investment Board had equity swap contracts outstanding to exchange money market interest payments for the return on a Canadian equity index. The contracts had a notional amount of $250 million and a term to maturity of one year. Notional amounts are used to compute the cash flows and for determining the fair value of the contracts. Notional amounts of derivative contracts are not recorded as assets or liabilities on the balance sheet.

The fair value of derivative contracts is $(785,000) at March 31, 2003 (2002 – $Nil) and is recorded as a liability on the balance sheet. Consistent with the investment policies,

the swap contracts are fully covered by cash and cash equivalents. The economic impact on the total investment asset mix is to increase Canadian public market equities exposure by 1.4%, with a corresponding decrease in money market securities exposure.

(B) REAL RETURN ASSETS

The CPP Investment Board obtains exposure to real estate through investments in publicly traded securities and privately held real estate. Private real estate investments are held by a subsidiary and are managed on behalf of the CPP Investment Board by external advisors and managers through co-ownership arrangements. As at March 31, 2003, the CPP Investment Board's share of these investments includes $246,484,000 of assets primarily related to properties (2002 – $Nil) and $152,000,000 of liabilities related to short-term mortgage debt (2002 – $Nil), which will be replaced with permanent financing within one year of the initial financing date.

(C) INVESTMENT RECEIVABLES

Investment receivables include dividends receivable on public market equities of $40,272,000 (2002 – $Nil) and accrued interest of $352,000 (2002 – $Nil) on term deposits.

(D) DUE TO PRIVATE EQUITY PARTNERSHIPS

Amounts due to partnerships represent the second installment owing to a limited partnership relating to the purchase by the partnership during the year of a portfolio of private equity investments.

(E) MANAGEMENT FEES

Private equity investments are generally made by taking interests in limited partnerships with a typical term of 10 years. The limited partnerships' underlying investments represent equity ownerships or investments with the risk and return characteristics of equity.

The CPP Investment Board advances capital to the limited partnerships, a portion of which, commonly referred to as management fees, is used by the general partners to select and provide ongoing management support to the underlying companies. Management fees generally vary between 1.5% and 2.0% of the total amount committed to the limited partnerships, and are included as part of the CPP Investment Board's cost of the investments. As discussed more fully in Note 1b, the carrying values of these investments are reviewed at least annually and any resulting adjustments are reflected as gains or losses. During the year ended March 31, 2003, management fees totalling $47 million (2002 – $9 million) were included in the capital advanced to the limited partnerships.

(F) COMMISSIONS

Commissions are paid to brokers on purchases and sales of publicly traded equities. Commissions on purchases are included as part of the cost of publicly traded equities. Commissions on sales are deducted from realized gains and losses as a cost of disposition. During the year ended March 31, 2003, the CPP Investment Board paid total brokerage commissions of $6 million (2002 – $4 million).

(G) FOREIGN CURRENCY RISK

The CPP Investment Board is exposed to currency risk through holdings of Non-Canadian investments and investment receivables. Investments are not hedged against changes in foreign exchange rates. The underlying currency exposures as at March 31, 2003 are as follows:

($000's)	**2003**		2002	
Currency	**Fair Value**	**% of Total**	Fair Value	% of Total
United States Dollar	**$ 3,091,739**	**56%**	$ 2,163,954	52%
Euro	**1,020,149**	**19%**	697,552	17%
British Pound Sterling	**577,369**	**10%**	542,765	13%
Japanese Yen	**448,268**	**8%**	388,170	9%
Swiss Franc	**166,886**	**3%**	156,826	4%
Other	**237,265**	**4%**	199,996	5%
	$ 5,541,676	**100%**	$ 4,149,263	100%

(H) CREDIT RISK

The CPP Investment Board limits credit risk by dealing with counterparties that have a minimum credit rating of A or R-1 (short term) as determined by a recognized credit rating agency, where available, or as determined through an internal credit rating process. Credit exposure is limited to maximum amounts approved by the Board of Directors.

3. CREDIT FACILITY

The CPP Investment Board maintains a $300,000,000 unsecured credit facility to meet potential liquidity requirements relating to investment activities. As at March 31, 2003, the total amount drawn on the credit facility was $125,000,000 (2002 – $Nil). Consistent with the investment policies, the credit facility will be repaid within 45 days of draw date.

4. SHARE CAPITAL

The issued and authorized share capital of the CPP Investment Board is $100 divided into 10 shares having a par value of $10 each. The shares are owned by Her Majesty in right of Canada.

5. CANADA PENSION PLAN TRANSFERS

Section 111 of the *Canada Pension Plan* provides for the transfer to the CPP Investment Board of funds not required by the CPP to pay current benefits. The funds come from both employer and employee contributions to the CPP, proceeds of maturing and redeemed government bonds held in a portfolio administered by the federal government, and interest income generated from this portfolio. During the year, a total of $7,318,068,000 (2002 - $6,826,171,000) was transferred to the CPP Investment Board.

6. INVESTMENT INCOME/(LOSS)

(A) INVESTMENT INCOME/(LOSS)

Investment income/(loss) consists of the following, after giving effect to derivative contracts and investment receivables and liabilities. During the current year, the CPP Investment Board sold units held in index pooled and mutual funds and purchased the individual securities underlying the funds. The sale of these units resulted in realized gains or losses representing the difference between the market price of the securities and the cost of the index pooled fund units.

($000's)	**2003**	2002
Net gain/(loss)[1]		
Canada	**$ (2,688,743)**	$ 405,763
Non-Canada[2]	**(1,747,865)**	(111,867)
	(4,436,608)	293,896
Dividend income		
Canada	**218,388**	12,153
Non-Canada	**69,767**	—
	288,155	12,153
Other income[3]	**9,029**	9,985
Total investment income/(loss)	**$ (4,139,424)**	$ 316,034

[1] Includes unrealized losses of $3,264,646 (2002 – unrealized gains of $459,247), realized losses of $1,532,754 (2002 – realized losses of $378,669), and distributions of capital gains and dividends from public equity pooled and mutual funds of $360,792 (2002 – $213,318).

[2] Includes foreign exchange losses of $244,697,000 (2002 – foreign exchange gains of $43,259,000).

[3] Includes private market real estate operating income of $786,508 (2002 - $Nil), which is net of debt interest of $3,013,847 (2002 – $Nil).

(B) INVESTMENT PERFORMANCE

Portfolio returns and benchmark returns are as follows:

	2003		2002	
	Portfolio Returns	**Benchmark Returns**	Portfolio Returns	Benchmark Returns
Canadian equity investments	**(17.3)%**	**(17.5)%**	5.9%	4.7%
Non-Canadian equity investments	**(27.6)%**	**(28.0)%**	(2.3)%	(2.8)%
Real return assets	**(50.7)%**	**9.2%**	2.6%	1.1%
Total	**(21.1)%**	**(20.3)%**	3.4%	2.4%

The CPP Investment Board uses a variety of metrics over the short, medium and long term to evaluate investment performance. Benchmark returns are based upon the S&P/TSX Composite for Canadian equity investments, a combination of the S&P 500 and the MSCI EAFE for Non-Canadian equity investments, and CPI + 4.5% for real return assets. The total portfolio benchmark return aggregates the asset class benchmark returns according to the weights specified in the investment policies.

Returns have been calculated in accordance with the methods set forth by the Association for Investment Management and Research.

7. INVESTMENT AND ADMINISTRATIVE EXPENSES

(A) EXECUTIVE COMPENSATION

The CPP Investment Board determines executive compensation based on compensation principles approved by the Board of Directors.

Compensation earned by the five most highly compensated executive officers of the CPP Investment Board during fiscal 2003 amounted to $1,684,254 (2002 – $1,752,580) and consisted of the following:

Name	Year	Salary	Annual Bonus[2]	Long-Term Bonus[2]	Benefits[3]
John A. MacNaughton	**2003**	**$ 400,000**	**$ 90,000**	**$24,875**	**$ 55,944**
President and Chief Executive Officer	2002	$ 363,650	$ 181,825	$ 31,526	$ 52,419
Mark Weisdorf	**2003**	**$ 215,000**	**$ 80,500**	**$ —**	**$ 30,452**
Vice President – Private Market Investments	2002	$ 185,000	$ 148,000	$ —	$ 25,191
Donald Raymond[1]	**2003**	**$ 185,000**	**$ 74,000**	**$ —**	**$ 24,278**
Vice President – Public Market Investments	2002	$ 106,019	$ 84,815	$ —	$ 8,564
Valter Viola	**2003**	**$ 180,600**	**$ 69,500**	**$ —**	**$ 21,266**
Vice President – Research and Risk Management	2002	$ 170,000	$ 132,940	$ —	$ 19,043
Jane Nyman	**2003**	**$ 170,000**	**$ 41,000**	**$ 4,039**	**$ 17,800**
Vice President – Finance and Operations	2002	$ 160,000	$ 62,880	$ 5,120	$ 15,588

[1] Commenced employment on September 4, 2001.

[2] Bonus awards include an annual and a long-term component and are based on the achievement of agreed objectives. The long-term bonus reflects amounts payable for the current year. Additionally, long-term bonuses awarded but not yet paid include approximately $305,946 for payment in 2004, $539,653 for payment in 2005, and $501,000 for payment in 2006. These amounts are adjusted annually by the total portfolio return. The payment of the long-term bonus is subject to executive officers meeting certain conditions of employment.

[3] Benefits include pension contributions in connection with a defined contribution registered pension plan and a defined contribution supplementary pension plan, life insurance, club dues, and other miscellaneous non-cash remuneration.

(B) GENERAL OPERATING EXPENSES

General operating expenses consist of the following:

($000's)	**2003**	2002
Office rent, supplies and equipment	**$ 1,537**	$ 1,314
Custodial fees	**876**	213
Communication expenses	**673**	572
Technology, data and analytical services	**625**	160
Travel and accommodation	**421**	272
Directors' remuneration	**373**	325
Other operating expenses	**330**	348
	$ 4,835	$ 3,204

Directors' remuneration includes an annual retainer for each director of $14,000 (2002 – $12,000), board and committee meeting fees of $1,000 per meeting (2002 – $900), plus an additional annual retainer of $3,250 for each committee chair (2002 – $3,000). Separate fees are not paid for investment committee meetings when they are held on the same day as board meetings, which is the usual custom. Commencing April 1, 2002 the Chair of the Board of Directors receives $85,000 in annual compensation but is not eligible to receive annual or committee chair retainers or meeting fees unless the fees relate to public meetings. In fiscal 2003, the Chair received a total of $96,000 (2002 - $62,900).

In fiscal 2003, the Board of Directors held 8 board and investment committee meetings (2002 – 10) and 15 other committee meetings (2002 – 17).

(C) PROFESSIONAL AND CONSULTING FEES

Professional and consulting fees consist of the following:

($000's)		**2003**		2002
Professional accounting and external audit[1]	**$**	**550**	$	270
Legal		**467**		261
Consulting[2]		**409**		439
	$	**1,426**	$	970

[1] Includes audit fees of $370,000 (2002 - $172,000) and other audit-related fees of $180,000 (2002 - $98,000).

[2] Includes non-audit-related fees of $Nil (2002 – $40,022) that were paid to the external auditors of the CPP Investment Board.

8. COMMITMENTS

The CPP Investment Board has committed to enter into private equity and real estate investment transactions, which will be funded over the next several years in accordance with the agreed terms and conditions. As at March 31, 2003, these outstanding commitments totalled $3.9 billion (2002 – $2.0 billion).

9. LEGISLATIVE AMENDMENT

Legislation to amend the *Canada Pension Plan* and the *Canada Pension Plan Investment Board Act* was passed by Parliament on April 3, 2003, and is now subject to provincial approval. The provisions of the amending legislation contemplate a transfer of the CPP assets currently managed by the federal government. If the legislative change is approved by the provinces, these assets will be transferred to the CPP Investment Board over a period of three years. The CPP assets consist of a bond portfolio and a cash operating balance and as at March 31, 2003 totalled approximately $33.7 billion at cost.

GOVERNANCE PRACTICES OF BOARD OF DIRECTORS

Canada Pension Plan Investment Board Regulations require disclosure in the annual report of the governance practices of the board of directors. More extensive governance information is posted at www.cppib.ca.

DUTIES, OBJECTIVE AND MANDATE OF THE BOARD OF DIRECTORS

The board is responsible for the stewardship of the CPP Investment Board, including oversight of management.

As fiduciaries, directors are required to act honestly and in good faith in the best interests of CPP contributors and beneficiaries. They must exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Directors must use their specialist knowledge in carrying out their duties and are subject to higher standards of care in areas that relate to their expertise.

Among other duties, the directors review and approve investment policies, standards and procedures; appoint the chief executive officer and annually review his performance; determine with management the organization's strategic direction; review and approve the annual business plan and budget; identify principal risks and implement appropriate systems to manage them; appoint independent internal and external auditors; establish procedures to identify and resolve conflicts of interest; establish codes of conduct for directors and employees; assess the performance of the board itself; and review and approve the stakeholder communications strategy including material disclosure such as quarterly and annual financial statements.

COMPOSITION, MANDATES AND ACTIVITIES OF BOARD COMMITTEES

The board has four committees. The Investment Committee consists of the full board. The membership of other committees is shown on the inside back cover.

The Investment Committee reviews and recommends our Investment Statement to the board for approval; and reviews, approves and monitors the CPP Investment Board's investment program. It also reviews portfolio risk tolerance and approves the engagement of external investment managers and new or large market mandates and custodians.

The Audit Committee oversees financial reporting, the external and internal audit, information systems, and internal control policies and practices. It also oversees aspects of the employee pension plans and advises the board in connection with any statutorily mandated special examinations. The Audit Committee regularly meets with both external and internal auditors without management present. Responsibility for enterprise-wide risk management is shared with the board and other committees.

The Human Resources and Compensation Committee administers a performance evaluation process for the Chief Executive Officer, reviews and recommends the compensation philosophy, reviews organizational structure and ensures succession planning. It also oversees employee benefits and human resource policies, aspects of the employee pension plans and directors' compensation.

The Governance Committee monitors application of the code of conduct and conflict of interest guidelines; recommends governance initiatives; makes recommendations to the board to improve the board's effectiveness; reviews criteria for new directors; establishes and recommends a performance evaluation process for the Chief Executive Officer, and assumes other duties at the board's request.

GOVERNANCE PRACTICES OF BOARD OF DIRECTORS

DECISIONS REQUIRING PRIOR BOARD APPROVAL

Management's discretion in making operational and investment decisions is established in board-approved policies. The board is required to consider and approve the majority of the recommendations made by management to board committees. In particular, board approval is required for the strategic direction for the organization, and the annual business plan and budget. Annual and incentive-based compensation, as well as officer appointments, require board approval.

PROCEDURES FOR THE ASSESSMENT OF BOARD PERFORMANCE

Soon after its inception in October 1998, the board established an annual process for evaluating its own performance and that of its committees. The assessments are conducted through confidential questionnaires that are summarized by an independent consultant. The summaries are reviewed by the full board and help to focus the directors on their fiduciary duties in representing the best interests of CPP contributors and beneficiaries. The board also conducts a confidential annual peer review to assist each director in identifying self-development initiatives and to provide the external nominating committee with guidance when it considers individual re-appointments.

BOARD EXPECTATIONS OF MANAGEMENT

Management is expected to comply with the *Canada Pension Plan Investment Board Act* and the *Canada Pension Plan Investment Board Regulations* as well as all policies and procedures approved by the board. Management develops, with involvement from the board, the strategic direction of the organization in response to its growing asset management responsibilities and the changing dynamics and expectations of capital markets. The strategic response incorporates risk management policies and controls as well as monitoring and reporting mechanisms.

Management is charged with developing benchmarks that objectively measure the performance of markets and asset classes in which CPP assets are invested. Benchmarks assist the board in evaluating management's investment performance and structuring performance-based compensation incentives.

Management is expected to make full and timely disclosure to the board and the public of all material activities, including new investments, the retention of operational and investment partners, quarterly and annual financial results, and developments that may affect the CPP Investment Board's reputation.

TOTAL COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

The total compensation of directors is summarized in note 7(b) to the financial statements. Board compensation is based on the 1999 median compensation for directors of the 300 companies that formed the previous TSE 300 Composite Index on the Toronto Stock Exchange.

The total compensation of the five mostly highly paid officers of the corporation is detailed in note 7(a) to the financial statements. Officer compensation is partially incentive-based and is reviewed annually by the board.

RESULTS OF SPECIAL AUDIT OR SPECIAL EXAMINATION

Under the *Canada Pension Plan Investment Board Act*, the Minister of Finance can order a special audit at any time, and must initiate a special examination of the CPP Investment Board's systems and practices at least once every six years. No special audit has been ordered. It is expected that a date for the first special examination will be set within the next year.

GOVERNANCE PRACTICES OF BOARD OF DIRECTORS

CONFLICT OF INTEREST PROCEDURES

Conflicts of interest were anticipated in the CPP Investment Board's legislation as a result of the federal and provincial governments' desire to require directors with financial and investment expertise and to engage employees with financial expertise. Procedures have been established to manage and where possible eliminate such conflicts. These procedures are designed to ensure that directors and employees do not profit or otherwise benefit from a transaction by or with the CPP Investment Board. Stringent disclosure of any personal or business interest that might lead to a real, potential or perceived conflict is required. The process for identifying, reporting and discussing such conflicts culminates with the board's Governance Committee recommending a resolution to the full board.

CODES OF CONDUCT

Codes of conduct for directors and employees are designed to create a corporate culture of trust, honesty and integrity and conflict of interest procedures deal with such matters as relations with suppliers, personal investments, and confidentiality of proprietary information. For example, the codes establish strict pre-clearance procedures for personal trading in securities issued by companies. They also deal with the acceptance by directors and employees of entertainment, gifts or favours that could create or appear to create a favoured position for contractors or suppliers.

BOARD ATTENDANCE: FISCAL 2003

The board held eight meetings in fiscal 2003. The Investment Committee is a committee of the full board. The table below reflects the number of meetings attended by each director relative to the total meetings that director could have attended by virtue of the date of his or her appointment to the board or the particular board committee. Richard Thomson completed his final term as a director during the year and Germaine Gibara and Ronald Smith joined the board just prior to year end.

	Board & Investment Committee	Audit Committee	Governance Committee	HR & Compensation Committee
Mary Arnold	8/8	5/5		
Gail Cook-Bennett	8/8	5/5*	5/5	3/3
Germaine Gibara	1/1		1/1	
Gilbert Gill	8/8	5/5		
Jacob Levi	7/8	5/5	2/2	1/1
Helen Meyer	8/8	5/5		4/4
Dale Parker	8/8		5/5	
Joseph Regan	8/8	5/5		4/4
Helen Sinclair	8/8		5/5	1/1
Ronald Smith	1/1	0/1		
Richard Thomson	5/8			4/4
David Walker	8/8		3/3	4/4

* The Chairperson is not a member of the audit committee but attends its meetings.

Chair, Board of Directors

Gail Cook-Bennett

Board of Directors and Investment Committee

Gail Cook-Bennett *(Chair)*
Mary C. Arnold
Germaine Gibara
Gilbert Gill
Jacob Levi
Helen M. Meyer
Dale G. Parker
M. Joseph Regan
Helen Sinclair
Ronald Smith
David Walker

Audit Committee

Mary C. Arnold *(Chair)*
Gilbert Gill
Jacob Levi
Helen M. Meyer
Ronald Smith

Human Resources and Compensation Committee

M. Joseph Regan *(Chair)*
Jacob Levi
Helen M. Meyer
Helen Sinclair
David Walker

Officers

John A. MacNaughton
President and Chief Executive Officer
Jane Beatty
Vice President - General Counsel and Corporate Secretary
Ian M.C. Dale
Vice President - Communications and Stakeholder Relations
Jane Nyman
Vice President - Finance and Operations
Donald M. Raymond
Vice President - Public Market Investments
Valter Viola
Vice President - Research and Risk Management
Mark A. Weisdorf
Vice President - Private Market Investments

Governance Committee

Dale G. Parker *(Chair)*
Gail Cook-Bennett
Germaine Gibara
Helen Sinclair
David Walker

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Web site: www.cppib.ca

Ce rapport annuel est aussi disponible en français

CPP
INVESTMENT
BOARD

ANNUAL REPORT

2004

BUILDING A STRONGER CPP

PROFILE

The CPP Investment Board is a Crown corporation created by an Act of Parliament in December 1997. Its long-term goal is to contribute to the financial strength of the Canada Pension Plan (CPP) by investing in the best interests of 16 million CPP contributors and beneficiaries and by maximizing returns without undue risk.

The CPP Investment Board invests in capital markets the funds not needed by the CPP to pay current pensions and is not expected to be required to contribute investment earnings to the CPP to help pay pensions until 2021. In order to build a diversified portfolio of CPP assets, the CPP Investment Board is currently investing cash flows in publicly traded stocks, private equities, real estate and infrastructure to balance the cash and bonds owned by the CPP.

Our disclosure policy states that: "Canadians have the right to know why, how and where we invest their Canada Pension Plan money, who makes the investment decisions, what assets are owned on their behalf and how the investments are performing."

By increasing the long-term value of funds available to the CPP, the CPP Investment Board will help the plan to keep its pension promise to Canadians.

Based in Toronto, the CPP Investment Board is governed and managed independently of the CPP and at arm's length from governments, but is accountable to Parliament and Canadians.

For more information on the CPP Investment Board, visit our website at www.cppib.ca.

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WHAT'S AVAILABLE ON OUR WEBSITE: WWW.CPPIB.CA

- Meet Our Team
- Our Governance
- Our Policies
- Canada Pension Plan
- Our History
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- Our Regulations
- Our Challenge
- Considerations
- Return Expectations
- Risk Management
- Public Market Investments
- Our Current Public Market Investments Strategy
- Private Market Investments
- Our Private Equity Partners
- Measuring Performance
- Social Investing
- Proxy Voting
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FINANCIAL HIGHLIGHTS

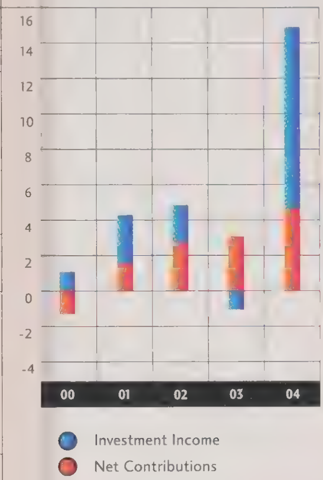
for the fiscal year ended March 31

FINANCIAL OVERVIEW *($ billions)*	**2004**	2003
Assets	**$ 70.5**	$ 55.6
Net Contributions	**4.6**	3.1
Investment Income	**10.3**	(1.1)

INVESTMENT PERFORMANCE *rate of return on investments (%)*	**2004**	2003
Annual	**17.6**	(1.5)
Long-term goal of 4% (plus inflation)	**4.7**	8.5

ASSETS	**2004**		2003	
	($ billions)	**(% of total)**	($ billions)	(% of total)
Bonds	**30.2**	**42.9%**	31.0	55.8%
Publicly traded stocks	**30.1**	**42.7%**	15.6	28.0%
Private equities	**1.8**	**2.5%**	1.5	2.7%
Real estate and infrastructure	**0.7**	**1.0%**	0.3	0.6%
Cash	**7.5**	**10.6%**	7.1	12.8%
Money market securities	**0.2**	**0.3%**	0.1	0.1%
	$ 70.5	**100.0%**	$ 55.6	100.0%

Net Contributions & Investment Income ($billions)
Fiscal year ending March 31



Building on our Approach to Governance

Governance of public and private corporations continues to stir widespread debate. As a Crown corporation investing billions of dollars on behalf of Canadians, the CPP Investment Board must be bold in ensuring the organization's integrity and credibility in a world of challenging investment markets and evolving governance expectations.


Gail Cook-Bennett

The CPP Investment Board's success depends on the expertise, professionalism and focus of our management and employees operating within a culture of integrity and transparency. This annual report focuses on their accomplishments. The governance of the organization begins with the modern governance model defined in our act, which is then overlaid by policy and practices that permit directors to conduct their oversight of management.

The CPP Investment Board's governance model was designed by the federal and provincial governments to balance the responsibilities of operating at arm's length from governments (as an investment company competing in the private sector) with accountability to Parliament, the provinces and the public (as one would expect from a Crown corporation). Public opinion research confirms that Canadians understand the importance of pairing the arm's length relationship with considerable transparency.

The delicacy of balancing responsibilities and accountability is reflected throughout the CPP Investment Board. One example is that commercial and proprietary information belonging to third parties with whom we do business must be kept confidential. And yet, through a proactive disclosure policy, the organization shares a great deal of information on our policies, procedures, investment philosophy, strategies, performance, assets under management and many other details. We believe this level of disclosure is unmatched by any Crown corporation or pension fund in Canada.

The decision to build a governance model that balances responsibilities and accountability was the outcome of consultation among the federal

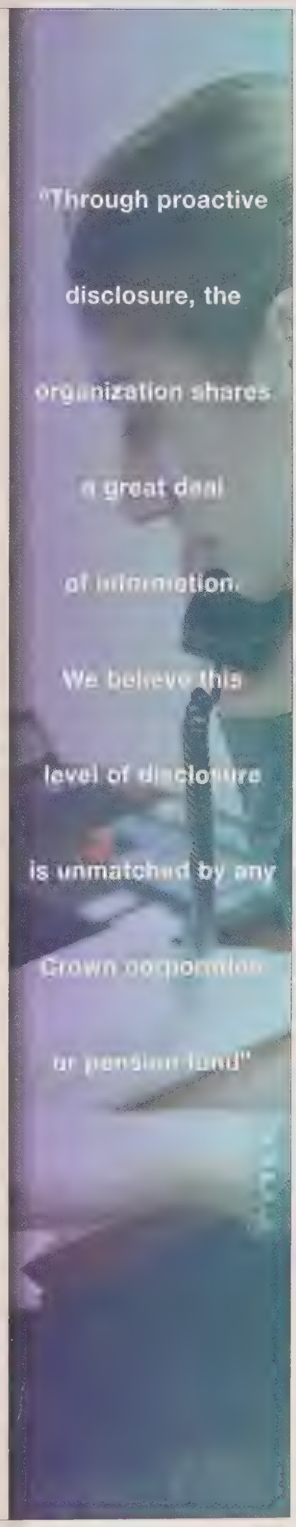
and provincial governments and the public in 1997. Since then, federal and provincial finance ministers have reviewed our governance on at least three occasions – in 1999 and 2002 as part of their triennial review of the CPP, and in 2003 when Parliament passed legislation with subsequent provincial approval to transfer all remaining CPP assets to the CPP Investment Board over the next few years.

At the board level, directors conduct their oversight by approving the boundaries within which management can operate and assessing regular reports on compliance. For example, capital put at risk is closely monitored by management and directors. Within defined risk limits the current strategy focuses on alternative ways of increasing the efficiency of the investment portfolio by such actions as increasing the number of asset classes, removing investment constraints, and striving for the excellent execution of the publicly traded stock portfolio and the private investment portfolio.

The boardroom culture within which directors oversee and contribute is always a challenge to describe. Clearly, our experienced directors, chosen for their expertise relevant to the organization's mandate, constructively challenge our professional and knowledgeable management team as we carry out our respective fiduciary duties.

As the CPP Investment Board enters an era of strong growth in which it must manage an enlarged sphere of complex relationships with external investment and business partners involving ever-growing sums of money, the focus is on anticipating possible events and adapting our approach to governance. An example is the evolution of the organization's handling of potential conflicts of interest.

In 1999, the directors developed and approved a conflict of interest policy and code of conduct. In 2002, we asked three outside specialists to review them. As part of the review, the board decided to create the role of a part-time external conduct review advisor with whom directors and employees could discuss ethical issues confidentially. On request,



the advisor's role is to help people make appropriate decisions in the face of complicated choices where there may be no clear or definitive answer. Importantly, the appointment, made in 2003, opens an outside avenue for whistleblowers.

John MacNaughton, the CPP Investment Board's first President and Chief Executive Officer, recently announced that he will retire during fiscal 2005, after five years in the position. John's extremely high standard of personal conduct, knowledge of capital markets and excellent ability to communicate combined to earn the CPP Investment Board credibility during its first phase of development and, in particular, the confidence of the sponsoring governments. Building a first-class team of professionals committed to management of the total investment portfolio, careful implementation of investment decisions and effective external interactions is his proud achievement. The Board of Directors salutes John for laying this solid foundation.

As Chairperson, it has been my privilege to work closely with John in a fascinating start-up situation that offered the opportunities to create cultures and practices designed to be robust and appropriate for the long term.

Looking forward, the directors are committed to identifying the very best leader to build on our strong foundation and guide the organization through the challenges of its next stage of development.

Gail Cook-Bennett

Gail Cook-Bennett,
Chairperson

A Board With Broadly Based Expertise

The process by which directors are appointed is a departure from the traditional practice for Crown corporations. An external nominating committee appointed by federal and provincial finance ministers, and chaired by an individual from the private sector, nominates candidates. The federal minister selects candidates from the committee's nominating list in consultation with provincial counterparts.

Chairperson
Gail Cook-Bennett
Economist.
Corporate director.
Former professor.

Dale G. Parker
Corporate director.
Former financial executive.

Mary C. Arnold
Chartered Accountant.
Management consultant.
Corporate director.

M. Joseph Regan
Retired bank executive.

Germaine Gibara
Chartered Financial Analyst. Management consultant.
Corporate director.

Helen Sinclair
Financial executive.
Corporate director.

Gilbert Gill
Chartered Accountant.
Former provincial deputy finance minister.

Ronald Smith
Chartered Accountant.
Chief financial officer.

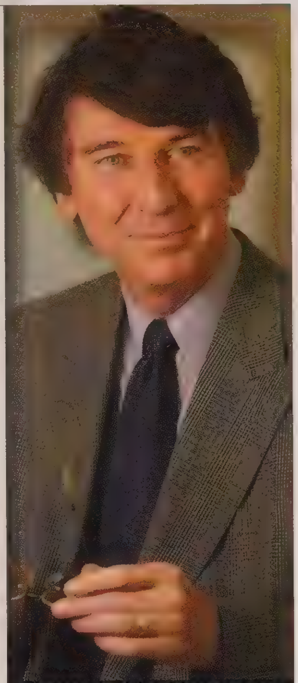
Jacob Levi
Actuary.

David Walker
Business consultant.

Helen M. Meyer
Chartered Business Valuator.

For a fuller description of board and committee responsibilities and membership, see governance section on pages 46-48.

BUILDING OUR PORTFOLIO AND OUR ORGANIZATION


JOHN A. MACNAUGHTON

The Canada Pension Plan reserve fund performed well in fiscal 2004, earning a 17.6 per cent rate of return to produce $10.3 billion of investment income. Coupled with $4.6 billion of contributions from employers and workers not needed to pay current pension benefits, the reserve fund grew by $14.9 billion to $70.5 billion.

Stock Strategy Reaps Big Short-term Rewards A large part of the reversal in CPP's investment fortunes from the $1.1 billion loss (total CPP portfolio) in fiscal 2003 was the result of our decision to continue to build the equity portfolio throughout the market collapse that began in the fall of 2000 and continued to the spring of 2003, one of the worst declines in a century. Many Canadians were concerned that we might be on the wrong track and should invest in bonds, or hold cash and try to time the market bottom. Our decision to stay the course and buy shares in hundreds of quality Canadian and foreign companies resulted in equity gains of $7.2 billion, versus a $4.1 billion loss a year earlier. For us, the stock market collapse was a buying opportunity on a long investment journey.

Assessing Investment Performance The five years that the CPP Investment Board has been investing in equities to diversify the total CPP assets have included two outstanding years in equity markets (fiscal 2000 and 2004) and the negative period mentioned above. During the five years we have experienced returns on CPP Investment Board assets as high as plus 40.1 per cent in 2000 and as low as minus 21.2 per cent in 2003.

As one would expect, given that we have been building a private equity portfolio that has negative returns in early years and have been transitioning large amounts of cash into the market and experiencing the resultant "cash drag," we underperformed conventional benchmarks during years with rising markets, such as 2004, and typically outperformed them in declining years. We measure and compare our performance against benchmarks carefully, but do not regard benchmarks as primary metrics in determining how well we did. However,

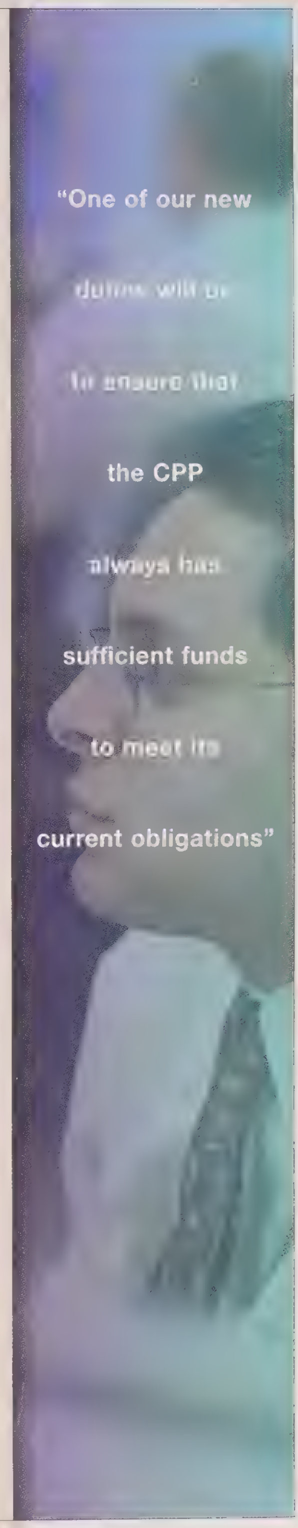
there are activities where benchmarks do have utility. An example is our active overlay program where they will be used to measure managers' skill in adding value.

One of the most important metrics is our performance in comparison to the level of return required to help sustain the pension plan. The minimum investment target for the CPP is a four per cent real rate of return (above inflation). If we can match that mark over the long term, the CPP Investment Board will have delivered on its mandate to help preserve the CPP. In fiscal 2004, the return on CPP Investment Board managed assets was substantially more than the plan's sustainability requirement. Since the CPP Investment Board invested its first dollar in March 1999, the assets we managed have exceeded the sustainability requirement by 69 basis points (or 0.69 per cent) – seemingly a small excess but one that, if compounded over decades, can add considerable wealth to the reserve fund.

Investment Framework The principal business of the CPP Investment Board is to manage the assets of the CPP in the context of its liabilities.

Our portfolio design decisions are made within our Investment Framework, which includes our investment beliefs and concepts used to more precisely define risk-return trade-offs. It is the basis upon which our investment strategies, policies, guidelines and procedures are developed to help achieve our investment mission. Our Investment Framework integrates total fund risk and return, is dynamic, takes into account plan liabilities and funding, and is decision oriented. It includes such concepts as minimum risk portfolio, capital at risk and risk-adjusted net value added.

Portfolio Management For us, portfolio management means translating our Investment Framework into a portfolio with the maximum expected return for a given amount of risk in the context of prevailing constraints. This ongoing process involves the design and efficient implementation of the total portfolio of public and private investments.



During fiscal 2004, we strengthened both our internal and external portfolio management capabilities.

Internally, we designed and began transitioning to a global equity sector portfolio whose performance, we believe, will be more closely correlated with our liabilities. We began integrating at the total portfolio level private and public equity sector exposures as well as risk. Our internal trading capabilities were expanded; our product capabilities in various derivatives, in cash and foreign exchange markets were strengthened. All passive portfolio management, both design and implementation, is now done internally.

We also expanded our external capabilities. After a comprehensive search for active managers, we appointed the first two managers of an innovative active overlay strategy. We expect to appoint additional managers for this strategy in the months ahead. In private markets, we added to our network of private equity general partners by making seven first-time commitments. We made our first infrastructure fund investment. We now have relationships with 36 general partners based in Canada, the United States and Europe.

Refining our Strategic Direction Fiscal 2004, our fifth full year, was an appropriate time to step back, review what we had accomplished and decide where to take the CPP Investment Board in the years ahead. We re-wrote our vision statement, re-crafted our mission statement and articulated the values we try to reflect. (See page 49)

We also identified and explored seven strategic differentiators where we thought we already had sustainable competitive advantages or believed we could develop them. Our Investment Framework and approach to Portfolio Management, summarized above, were two of the seven. The other five were Governance, Human Resources, Management Systems, Innovative Development and Reputation.

All are important, but none more so than Human Resources. Very simply, to achieve our mission, the CPP Investment Board needs to recruit, develop and retain top caliber employees, and create a work environment in which they can flourish.

We are proud of the outstanding team of professionals we have attracted. For them, we are dedicated to creating a culture that exemplifies ethical conduct and courtesy, aspires to excellence, encourages intellectual curiosity and seeks to optimize outcomes by balancing clear individual accountability and authority with a respect for teamwork – a culture where people value the important work that has been entrusted to them by millions of Canadians.

The CPP Investment Board is destined to become one of the largest pension fund managers in the world. By attracting and keeping superior employees, it has the potential to become one of the most sophisticated and respected as well.

We will be doubling the number of employees to almost 100 in fiscal 2005 as we broaden and deepen our management and professional capabilities.

One of the reasons for this expansion is the dramatic increase in assets the CPP Investment Board will be managing: They are projected to increase to more than $95 billion within three years and $190 billion within the decade.

Expanded Responsibilities Another reason for growing our workforce is that our responsibilities are being increased. Legislation amending the *Canada Pension Plan* and the *Canada Pension Plan Investment Board Act* came into effect on April 1, 2004. As a result, CPP fixed income assets, both bonds and cash, are being transferred to our care. As well, the amended legislation has resulted in responsibility for providing cash management services for the CPP being transferred to the CPP

Investment Board. In future, contributions to the CPP will flow to the CPP Investment Board and benefits will be paid from cash provided by the CPP Investment Board.

This transfer of assets and responsibilities is a signal event. It is another sign that Canada's federal and provincial finance ministers remain committed to their original vision of the CPP Investment Board as an organization that would professionally manage all of the assets of the CPP at arm's length from government.

It is also a vote of confidence, a gratifying endorsement of the strategies, organization, infrastructure and capabilities that have been put in place at the CPP Investment Board.

On to a New Era There is rarely a "right time" to step down from a leadership position, but for me fiscal 2005 will be as close to that magic moment as one can reasonably hope for.

We have just completed a fiscal year with excellent investment results. As discussed earlier in this report our Investment Framework is operative and informing all our investment decisions, our portfolio management capabilities, both internal and external, are growing and we have attracted a superlative management and professional team. Excellent management systems that can grow with our expansion have been established. The constructive culture we want to nurture has germinated. There is increasing and positive recognition of the CPP Investment Board. Canada's finance ministers have affirmed our organization by expanding our mandate. In short, the goals of our start-up phase have largely been accomplished.

We are presently in the final stages of transitioning from start-up to a period of long-term growth that will continue until approximately 2021. A logical part of this process is the identification of a new leader for the era that lies ahead.

The search for that individual will be conducted by our Board of Directors. I am committed to supporting the board and then facilitating the successful launch of the chosen individual. Until that occurs, I remain focused on building our organization, wisely investing the approximately $10 billion in net new cash we will receive over the coming months, and working to ensure the successful completion of both the first special examination of the CPP Investment Board's management systems and practices and also the upcoming triennial review of our legislation and regulations by Canada's finance ministers.

I cannot overstate how deeply I have appreciated the privilege of serving as founding president and chief executive officer of the CPP Investment Board. I thank our dedicated Board of Directors, first for the invitation to serve during our challenging early years and second for their support and wise counsel. I especially thank our capable and thoughtful Chairperson Gail Cook-Bennett. We have worked closely together with the shared goal of building an institution that Canadians can trust and be proud of for decades to come.

The accomplishments profiled in this annual report are the product of the abilities and efforts of many people. The CPP Investment Board has been blessed during its early days by its success in attracting exceptional officers and employees who were eager to be part of a Canadian innovation, professionals committed to applying their varied talents to the benefit of their fellow citizens.

A sincere thank you to all.

John A. MacNaughton,
President and Chief Executive Officer

The annual report contains forward-looking statements reflecting management's objectives, outlook and expectations as of the date of this report. These statements involve risks and uncertainties. Therefore our investment activities may vary from those outlined in these forward-looking statements.

Funding The contribution rate and benefits of the Canada Pension Plan are determined by the federal and provincial finance ministers, who meet every three years to review these and other aspects of the CPP. The funding of the CPP depends on contribution rates, the return on the portfolio and the CPP's obligations. In January 2003, the federal and provincial finance ministers confirmed that the CPP was sound and sustainable for the long term.

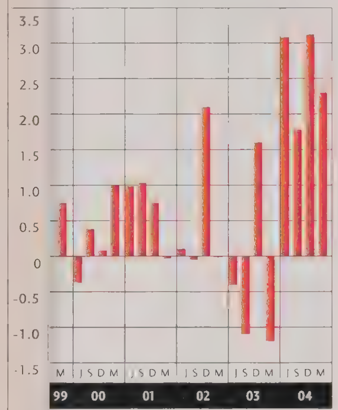
For the 2004 calendar year, the combined contribution rate of Canadian workers and their employers is 9.9 per cent (unchanged from 2003) on a maximum annual pensionable income of $40,500.

The Chief Actuary for the CPP believes that a four per cent return above inflation would be sufficient to sustain current plan benefits for at least the next 75 years, assuming his demographic, economic and other non-portfolio related assumptions hold true.

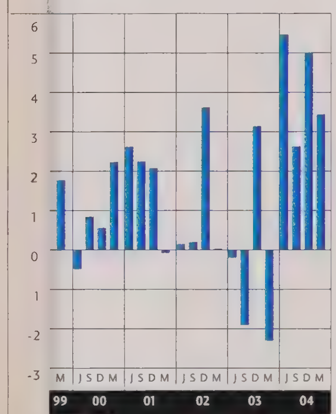
Mandate The CPP Investment Board invests assets not required by the CPP to pay current benefits. Our legislated mandate is to achieve a maximum rate of return without undue risk, having regard to the factors that may affect the funding of the CPP and its ability to meet its ongoing financial obligations.

During the past five years, the CPP Investment Board has been diversifying the CPP reserve fund away from its historical and exclusive reliance on government bonds (and a cash reserve to pay current pension benefits) to include publicly traded stocks, private equity, real estate and infrastructure assets. As a result of this diversification, the

CPP Reserve Fund Quarterly Dollar Returns ($billions)
Fiscal year ending March 31



CPP Reserve Fund Quarterly Percentage Returns (%)
Fiscal year ending March 31



CPP Investment Board expects to earn a 4.5 per cent real rate of return (that is, above inflation) over the long term, or 0.5 per cent more than the minimum required to sustain the CPP at the current CPP contribution rate.

Maximizing Returns The gradual diversification of CPP assets is consistent with our mandate to maximize returns and reflects the widely held belief that investing primarily in fixed income securities such as government bonds will not generate the four per cent real rate of return required to sustain the plan for the long term.

In our opinion, publicly traded stocks should generate higher long-term returns than bonds, although short-term market volatility will cause large quarterly and yearly swings in results. Private equities should perform even better than publicly traded stocks, although they can take time to generate higher returns, while real estate and infrastructure assets should perform better than bonds and provide a hedge against the inflation exposure of CPP liabilities.

Our Distinct Advantage In addition to creating the CPP Investment Board, the reforms of 1997 began to transform the CPP from a pay-as-you-go plan to a partially funded plan. This was accomplished through incremental increases in the contribution rate to ensure that more money is collected in contributions than is needed to pay immediate benefits. Because contributions will exceed benefit payments until 2021, the CPP Investment Board is in the enviable position of being able to invest cash inflows for 17 years without using investment income to pay benefits. (Most pension funds, by contrast, require investment income to help pay current benefits.) As a result, the CPP Investment Board has the cash resources and time to make the longer-term investments in less liquid assets to earn higher returns than the CPP's bond portfolio.

Investment Risk Management Our mission is to manage the assets entrusted to us in the best interests of CPP contributors and beneficiaries. In adhering to prudent investment policies, standards and practices, we have developed an enterprise-wide risk management framework that identifies seven major risks: strategic, business environment, fiduciary, investment, legislative and regulatory, operational, and reputation. These risks, discussed under Enterprise-Wide Risk Management Framework on page 25, are continuously monitored, assessed and managed.

The investment risk is that the CPP reserve fund will not earn the minimum four per cent real return needed to sustain the CPP over the long term. As investment returns are only one of several factors that contribute to the CPP's sustainability, there is always a risk that the current CPP contribution rate and benefit levels will not be sustainable at some future date. We have developed a framework of investment beliefs, risk limits and long-term return expectations that considers the amount of investment risk we should take to support sustainability.

We continuously review our investment beliefs, portfolio risk management concepts and other practices to ensure that portfolio risks are identified and managed effectively. For example, the board limits the maximum amount of risk that management can assume relative to a minimum risk portfolio that acts as a proxy for CPP liabilities. The board also approves credit risk limits, while the president and CEO approves the amount of risk that can be taken relative to passive benchmarks (active risk). We also manage cash liquidity risk. The board receives a quarterly report on our compliance with all risk limits and the effectiveness of our risk management controls.

Assets As the accompanying chart shows, at the end of fiscal 2004, the CPP reserve fund consisted of 54 per cent fixed income securities,

"Our investment beliefs, risk limits and long-term return expectations are all focused on CPP sustainability"

VALTER VIOLA
VICE PRESIDENT - RESEARCH AND RISK MANAGEMENT

43 per cent publicly traded equities and three per cent private equity, real estate and infrastructure. Depending on the rate at which we invest the portfolio into non-fixed income investments, we expect these proportions to reach 35 per cent, 58 per cent and seven per cent respectively sometime in fiscal 2006.

Fixed Income Securities At the March 31 year-end, cash and bonds totalled $37.7 billion, compared with $38.1 billion a year ago.

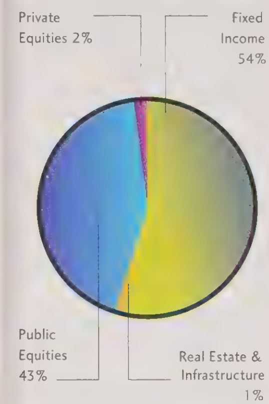
CPP bond and cash assets held by the federal Department of Finance will be gradually transferred to the CPP Investment Board beginning in fiscal 2005. The transfer of $30.2 billion in bonds began on May 1, 2004, and will take three years to complete. If provinces choose to roll over their bonds, the last of the bond portfolio will not mature until 2033. The transfer of cash will begin in September 2004, and take a year to complete.

Effective September 2004, the CPP Investment Board will also assume the primary responsibility, currently performed by the federal government, for ensuring that the CPP has sufficient funds to pay expenses and benefits.

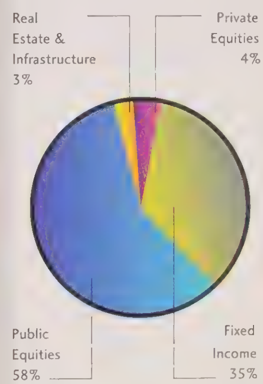
We have put staff and cash management systems in place in preparation for the transfer of these assets to the CPP Investment Board and new obligations. Funds required to pay current benefits will be invested in liquid short-term money market instruments, while the remaining funds will be invested in longer-term assets.

The transfer of the CPP bonds to the CPP Investment Board will increase the domestic content of our assets under the foreign property rule. This will make it possible to augment the international diversification of the overall portfolio.

CPP Reserve Fund Asset Mix
Fiscal year ending March 31, 2004



Expected Asset Mix in 2006



Public Markets Publicly traded stocks under CPP Investment Board management at March 31, 2004, were valued at $30.1 billion, or 43 per cent of the CPP reserve fund, up from $15.6 billion or 28 per cent the previous year.

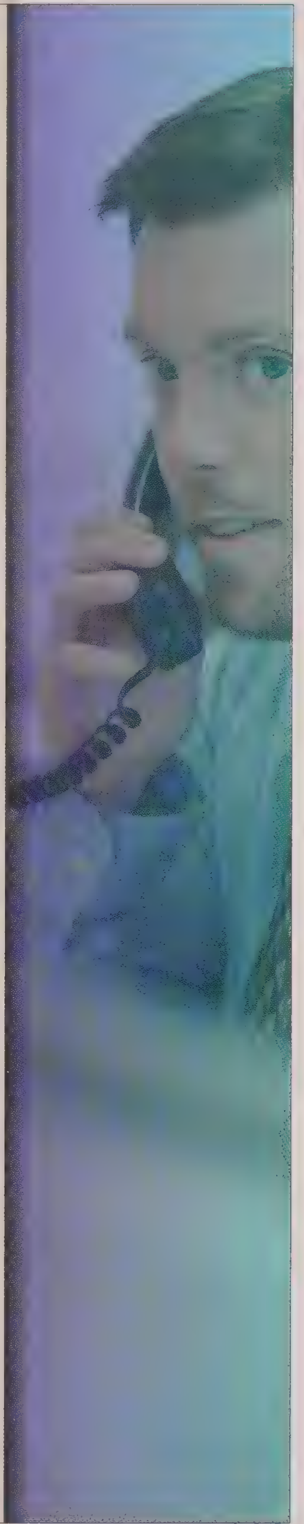
We invest excess CPP funds primarily in publicly traded companies to earn higher long-term expected returns than would be possible with fixed income holdings alone. Our approach is to build an efficient, diversified portfolio with broad exposure to business sectors in Canada and abroad.

We are currently shifting from traditional index fund investing, which can cause imprudent concentrations in individual stocks and sectors, to a strategy of investing on an economic sector basis. This takes into account global conditions, the nature of CPP liabilities and other constraints.

There are 12 key economic sectors internationally. The Canadian equity market is under-represented in sectors such as technology and pharmaceuticals and over-represented in such sectors as financial services and energy relative to the rest of the world. Our objective is to build a portfolio with a sector allocation that reflects global conditions.

Because of our need to invest larger amounts of cash, our customized approach means that our holdings in Canada will be primarily in larger public companies. However, we will continue to select Canadian companies with smaller capitalizations where we can improve the risk-return profile of the overall portfolio.

During fiscal 2004, we added internal trading staff and external transition managers who are responsible for investing funds in public markets with minimal impact on prices.



Active Management In March 2004, we took the first steps to implement an efficient active overlay program in publicly traded securities. We appointed two external managers, Connor, Clark & Lunn Investment Management Ltd. and UBS Global Asset Management, and gave each manager a mandate to add value by adjusting our passive equity portfolio on a short-term basis. These active managers combine research, portfolio management and risk management capabilities with a demonstrated ability to add value. Each will start with the equivalent of a funded $500 million allocation.

The active managers will sell what they view as overvalued holdings in the portfolio and invest the proceeds in undervalued securities. The fees they earn will be determined primarily by the performance of the securities they buy relative to the ones they sell. Our performance-based fee structure rewards these managers based on the skill they demonstrate in consistently adding value. We plan to retain additional active managers.

Proxy Voting The CPP Investment Board holds a significant number of shares in approximately 300 of Canada's largest public companies and 900 foreign companies. Given our holdings, we have important proxy voting responsibilities. In fiscal 2003, we announced proxy voting guidelines designed to encourage good corporate governance by indicating our views on issues that boards face in the normal course of business. The guidelines were updated in February 2004 to reflect recent regulatory decisions. Our guidelines and past votes are available on our website.

Private Markets In less than three years, we have established one of the largest private equity programs in Canada. Our partners are experienced and successful private equity investors in Canada, the United States and Western Europe. We will build on these relationships and seek new ones, while leveraging our internal capabilities.

"Expanding our trading capabilities is a natural evolution. It helps us manage the passive portfolio and provide cash management for the CPP"

DONALD M. RAYMOND
VICE PRESIDENT - PUBLIC MARKET INVESTMENTS

Private equity fits well in a broadly diversified portfolio and is an attractive alternative to public equity with potentially greater returns. Our long-term target is to invest up to 10 per cent of total CPP assets in private equity.

During fiscal 2004, we expanded our portfolio with commitments to eight additional private equity funds. Private equity funds are typically structured as limited partnerships and managed by specialized general partners. We commit a fixed amount of capital to each fund and the general partner draws down our commitment as investments are made.

At year-end, our private equity commitments were approximately $6 billion, of which $2 billion had been invested. These commitments covered 42 limited partnerships managed by 36 general partners, representing investments in more than 2,500 underlying companies. Geographically, our overall commitment is approximately half to the United States, and one quarter each to Canada and Western Europe.

Most of our private equity commitments are to primary funds that make direct investments in businesses. However, we also commit to secondary funds and joint ventures that acquire partially funded interests in primary private equity funds from existing limited partners. Secondary funds usually comprise underlying funds that were begun at different times and have a variety of general partner sponsors. To date, we have committed $1 billion to secondary activities because they provide enhanced diversification and attractive returns. As an example, in February 2004 we committed US$120 million to a joint venture with Paul Capital Partners to acquire a diversified portfolio of private equity partnership interests, mainly in U.S. buyout funds.

We also committed to funds established for the CPP Investment Board as the sole investor. For example, in August 2003 we established a fund

"The reason we invest in private equities is simple. We expect them to outperform publicly traded equities"

THOMAS A. TUTSCH
INTERIM HEAD - PRIVATE MARKET INVESTMENTS

with Credit Suisse First Boston to invest in U.S. middle-market funds on our behalf and to make some direct investments alongside these funds. By leveraging the capabilities of Credit Suisse First Boston, we can make a relatively large number of smaller commitments without having to dedicate significant internal resources. As the sole investor, we structure and manage this relationship to suit our needs.

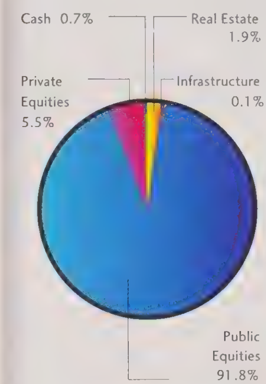
In October 2003, we made a $50 million commitment to Ventures West 8, a venture capital fund that will target early-stage companies across Canada in the information technology, biotechnology, communications and energy technology sectors. This investment brought our total venture capital commitment in Canada to more than $500 million. Ventures West 8 has invested in Canadian venture capital for more than 30 years and is one of the country's most established venture capital fund managers.

Real Estate and Infrastructure Assets Real estate and infrastructure are attractive asset classes because they diversify the CPP reserve fund and increase risk-adjusted expected returns over the long term. Real estate and infrastructure have higher expected returns than bonds and are a better hedge against the inflation risk in CPP liabilities.

Our long-term target allocation to real estate and infrastructure is up to 10 per cent of the CPP reserve fund in each asset class. Our approach has evolved from investments in publicly traded real estate companies to co-owning properties with experienced real estate managers. We will continue to seek strategic opportunities to grow the portfolio.

During fiscal 2004, we committed a further $100 million to real estate, bringing total commitments to $375 million. The latest commitment was to a 50-50 joint venture with Retirement Residences REIT. In

CPP Investment Board Portfolio
Fiscal year ending March 31, 2004



September 2003, the joint venture purchased a portfolio of 17 retirement homes located in British Columbia, Ontario and Manitoba, and is seeking further acquisitions.

After examining a number of infrastructure opportunities, we made our first commitment to Macquarie Essential Assets Partnership in December 2003. The Macquarie group is a global investment bank headquartered in Australia operating in 18 countries, with offices in Toronto and Vancouver. The fund will invest in North American infrastructure assets, primarily in Canada, including pipelines and electricity transmission and distribution networks.

Derivatives We use conventional derivatives, including equity index swaps and futures, to manage risk, enhance returns and provide liquidity. These financial contracts derive their value from underlying assets, interest rates or exchange rates. Our exposure to derivatives is limited by our credit policy. We adhere to strict controls to ensure that they are used only to gain market exposure by, for example, replicating direct investments in an equity index. Further information is available in our investment statement posted on our website.

While the CPP Investment Board must take all the assets and liabilities of the CPP into consideration in making investment decisions, only the assets owned by the CPP Investment Board are included in our financial statements. The market value and rates of return for CPP bond and cash assets are estimates by the CPP Investment Board.

Asset Growth In fiscal 2004, total assets available to the CPP, or the CPP reserve fund, grew by $14.9 billion to $70.5 billion. The CPP Investment Board received $8.1 billion in cash flows from the CPP, compared with $7.3 billion in fiscal 2003. These cash flows from excess CPP contributions, bond interest and the proceeds from matured bonds were invested in publicly traded stocks, private equities, real estate and infrastructure assets and money market securities to back equity derivatives exposure.

Since 1999, the CPP reserve fund has grown by $26.3 billion, of which approximately 38 per cent was from excess contributions and the remainder from investment income on the total fund.

Overall Performance The CPP reserve fund showed a $10.3 billion investment gain in fiscal 2004 compared with a $1.1 billion loss in 2003. The rate of return was 17.6 per cent versus a negative 1.5 per cent the previous year.

The fixed income portfolio again generated positive returns as interest rates continued to decline. Combined with the CPP cash deposits, which earn interest similar to short-term government securities, fixed income assets generated income of $3.1 billion compared with $3.0 billion the year before. The rate of return on fixed income assets was 8.7 per cent, compared with 8.4 per cent in fiscal 2003.

After 2 1/2 years of decline, global equity markets rebounded strongly in fiscal 2004. As a result, returns from equities far surpassed those of

PERFORMANCE REVIEW

fixed income. Equities and real estate produced income of $7.2 billion for a 31.7 per cent rate of return compared with a loss of $4.1 billion, or a negative 21.1 per cent rate of return, in 2003.

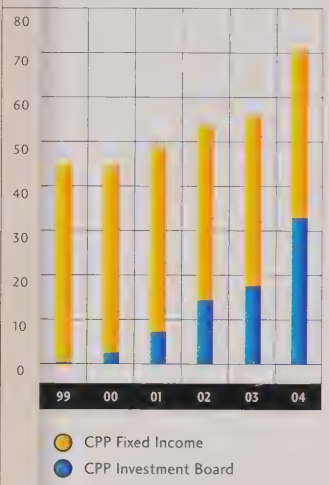
Relative Performance We compare the performance of the CPP reserve fund with the four per cent real return needed to sustain the CPP over the long term. For CPP contributors and beneficiaries, CPP sustainability is the most relevant measure of performance. In fiscal 2004, the CPP reserve fund performed exceptionally well, earning a real return of 16.8 per cent (17.6 per cent nominal), compared with the four per cent (4.7 per cent nominal) long-term return needed for CPP sustainability.

Since March 1999, the return on the CPP reserve fund has underperformed the CPP sustainability return by 0.4 per cent due to the large cash and bond holdings relative to equities in the early years when bonds performed poorly. However, the assets managed by the CPP Investment Board exceeded the sustainability return by 0.69 per cent since we invested our first dollar in March 1999.

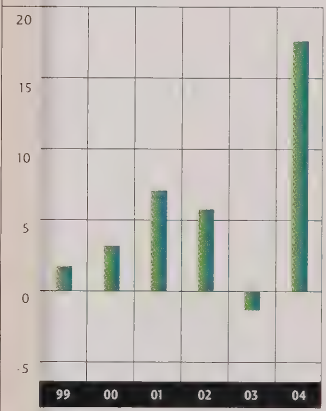
Prior to July 2003, we compared the performance of asset classes managed by the CPP Investment Board with conventional benchmarks such as the S&P/TSX Composite Index for Canadian stocks, the S&P 500 Index for U.S. stocks and the MSCI EAFE Index for non-North American stocks. In July 2003, we began to shift our passive portfolio from replicating well-known indexes to structuring it on an economic sector basis from the global perspective. The customized benchmark we are currently using to measure performance is described in the financial statements.

In fiscal 2004, our portfolio return of 31.7 per cent was 2.7 per cent lower than the customized benchmark return. This outcome was expected and was primarily the natural consequence of investing large sums of cash in a rising market as well as building a private equity portfolio that is valued conservatively in the initial years.

CPP Reserve Fund
($billions)
Fiscal year ending March 31



CPP Reserve Fund Investment Returns (percentage)
Fiscal year ending March 31



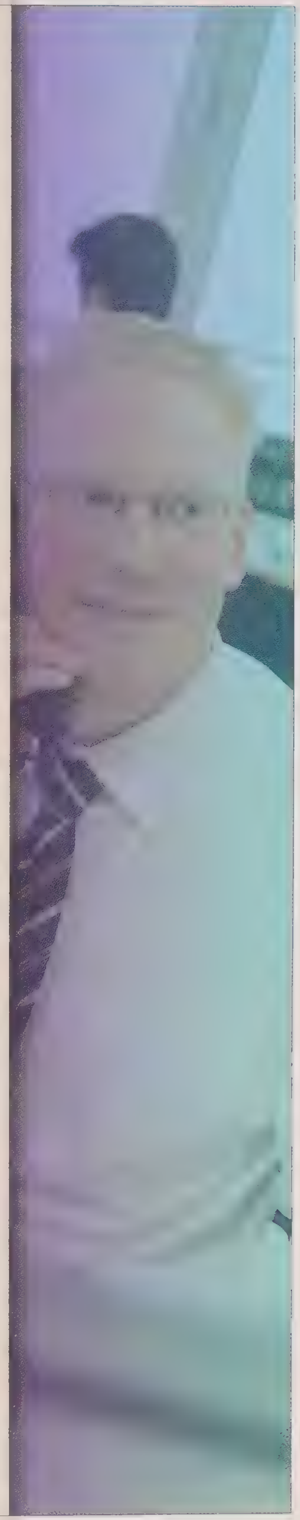
The major reason why the return for assets managed by the CPP Investment Board fell short of the benchmark return is related to the private equity portfolio. Private equity assets are carried on our balance sheet at very conservative values and, as expected, will take a few years to generate the positive cash flows required to determine reliable market valuations.

We also face the challenge of investing large sums of cash flow without disrupting the Canadian market. For example, in one day we received $1.7 billion in cash inflow that took one month to invest. The transition of cash into stocks creates a "cash drag" on our returns in a rising market while funds are not fully invested.

Since inception, the portfolio managed by the CPP Investment Board has exceeded the Composite benchmark return by 1.8 per cent, largely because we reduced our exposure to one Canadian technology stock (Nortel Networks) that in 1999 and 2000 dominated the Canadian market and subsequently lost substantial value. Our decision resulted in lower portfolio losses during that period than would have otherwise occurred.

The CPP Investment Board also evaluates returns and risks relative to a minimum risk portfolio that mirrors the growth of CPP liabilities. The proxy for the minimum risk portfolio is currently the Scotia Capital Real Return Bond Index. It is a useful starting point in enabling us to track the value added to the CPP reserve fund as we seek full compensation for all risks assumed and investment costs incurred. This performance measurement is reviewed by management with the Board of Directors on a regular basis.

Liquidity and Capital Resources CPP contributions exceeded the amount required to pay benefits in fiscal 2004 by approximately $4.6 billion compared with $3.1 billion in fiscal 2003. As we assume our new role as provider of cash management services to the CPP

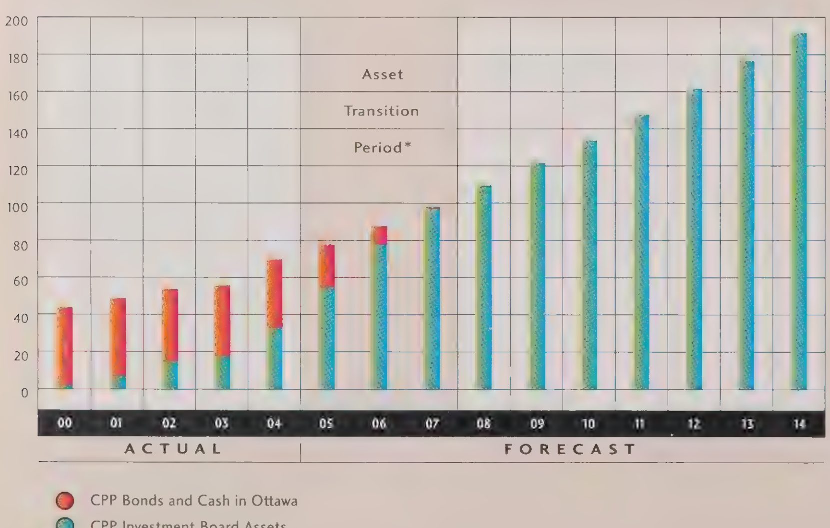


starting September 2004, we expect average monthly short-term cash inflows of approximately $3 billion. A portion of these funds will be invested in highly liquid short-term investments and then returned each month to the CPP in order to pay benefits.

As a Canadian pension fund we face certain investment limitations and restrictions. Funds slated for publicly traded equities must be invested carefully to avoid pushing up share prices. Our investment flexibility under the foreign property rule is further limited by the fact that private equity investments held through limited partnerships are generally considered foreign content under the *Income Tax Act*. Currently the bulk of our private equity holdings are limited partnerships. The transfer of the remaining cash and bond assets of the CPP to our management will effectively boost the overall Canadian content of our portfolio, providing additional room for global asset purchases.

Looking Ahead Despite the strong performance of equity markets this past fiscal year, the challenging investment outlook we outlined in

Projected Assets ($billions)
Fiscal year ending March 31



* CPP bonds and cash currently administered by the federal government will be transferred to the CPP Investment Board during this period.

last year's annual report continues to apply. Interest rates remain at historic lows, limiting prospective returns on fixed income assets, and equities have started the year with higher prices than a year ago. We believe it is prudent to assume that equity returns will be modest over the next decade.

However, we also believe that publicly traded equities will outperform fixed income investments over the long term. Consequently, we will continue to invest in public equities using our global sector approach so that CPP reserve fund assets are allocated in a way that reflects the long-term funding requirements of the CPP.

Like other major pension funds, we are looking for opportunities to increase the size of our investments in real return assets, in part because their value over time will likely track and surpass the general rate of inflation. Clearly, our goal of achieving our target of a 4.5 per cent long-term real rate of return for the CPP will require diligence.

Enterprise-Wide Risk Management Framework The enterprise-wide risk management framework is designed to communicate, monitor and report on the risks that may affect the achievement of our business objectives and strategies. Within the enterprise-wide risk management framework we have identified seven categories of risks. In addition to investment risk, which is discussed on page 14 of this report, the major categories of risk are as follows:

- *Strategic Risk* – If business strategies are not developed, executed or monitored effectively, we may not be able to achieve our mission. To manage this risk, we ensure that we have effective governance, organizational structure and leadership, and effective strategic and business planning processes.

- *Fiduciary Risk* – Any organization must consider the possibility that fiduciary responsibilities may not be respected or appropriately

"Our enterprise-wide framework is forward-looking; it allows us to identify the key risks we're likely to face and then deal with them"

JANE NYMAN
VICE PRESIDENT - FINANCE AND OPERATIONS

executed. To manage this risk effectively, we have a clear understanding of roles, responsibilities and authorities at each level of the organization. In addition, through our code of conduct and conflict of interest policies for directors and employees, we ensure that values and behavioural expectations are well understood and integrated throughout the organization.

- *Business Environment Risk* – This is the risk of not continuously anticipating, monitoring, understanding and responding to changes in the business environment. We keep abreast of social, cultural, economic and political changes that can affect our ability to achieve our mission.

- *Legislative and Regulatory Risk* – This is the risk of actual or proposed changes to legislation. It also includes the risk of non-compliance with laws, rules, regulations, prescribed practices or ethical standards. A compliance management system that tracks our legislative and regulatory obligations requires each department to acknowledge compliance with various requirements. The system is administered by our Law Department. Quarterly reporting is provided to the Audit Committee.

- *Operational Risk* – This is the risk to the organization of direct or indirect loss resulting from inadequate or failed internal processes, technology or human performance. To manage this risk we establish appropriate controls around information processing, sufficient and appropriate reporting and safeguarding of assets, management of information technology and appropriate human resources systems and practices.

- *Reputation Risk* – Internal or external factors could damage the organization's reputation, image or credibility. For example, reputation can be damaged by not appropriately managing the various risks described above. Our Communications and Stakeholder Relations Department

"We take our code of conduct and conflict of interest provisions very seriously because they are fundamental to our ability to maintain public trust and confidence"

JOHN BUTLER
VICE PRESIDENT - GENERAL COUNSEL AND CORPORATE SECRETARY

also ensures that clear and clearly understood communications are provided to stakeholders and the general public.

The board is responsible for ensuring that management has identified the principal risks of the business and has established appropriate policies and internal controls. It is management's responsibility to recommend such policies to the board for its consideration and approval, establish internal controls and procedures to effectively manage the risks of the organization, and provide reports to the board and its committees. Internal and external auditors, in the course of executing their audit plans, also provide input to management and the board on the effectiveness of the organization's risk management practices.

Accounting Policies All our investments are stated at fair value. Quoted market prices are used for publicly traded stocks, which are priced daily by the market. However, valuations for our private market investments are generally not publicly available. As a result, valuations for these investments are based on estimates and are inherently uncertain. These values are determined by external managers using accepted industry valuation methods and are typically based on conservative valuation policies.

Our significant accounting policies are described in Note 1 to the financial statements.

CPP Investment Board Operations At year-end, the employees of the CPP Investment Board totalled 51 professionals and support staff compared with 35 the year before. The cost of running the organization in fiscal 2004 totalled $19.7 million compared with $12.9 million the previous year. Expenses for fiscal 2004 were seven basis points, or seven cents per $100 of invested assets, which is unchanged from the year before. Details of these expenses can be found in the financial statements on pages 31-45.

This growth is necessary to build institutional strength. We will expand staff again in fiscal 2005, raising our total to approximately 100 people.

Through the year, we did extensive organizational design work to prepare for the anticipated increase in assets that will come under our management. The work also prepared us for the growth required to monitor working relationships with the 50 firms that implement segments of our investment and operating strategies. A key component of our enterprise-wide approach to managing risk is the ongoing monitoring of our external partners. Similarly, additional resources are required because of the more active role we are taking in managing CPP funds as well as the additional responsibilities we will face with the transfer of the remaining CPP cash and bond assets.

Operating costs are expected to almost double in fiscal 2005 but remain constant as measured in basis points on assets under management. The primary driver of our increased costs is compensation and benefits related to the doubling of our number of employees. Although expenses are rising, we have effective cost management systems and practices in place to ensure the CPP Investment Board continues to provide value for money. Going forward, external investment management expenses for public market investments are largely performance-based so increases in this regard will reflect positive results from our active overlay program.

In fiscal 2004, our first special examination authorized by the federal Minister of Finance was begun. This audit is required once every six years under our governing legislation.

Corporate Objectives Our investment focus is long-term, but we set annual investment and operating objectives. We are required by the regulations attached to our legislation to publish a statement in the annual report of our objectives for the past year and the extent to

which they have been met. We are similarly required to publish our objectives for the next year and the foreseeable future.

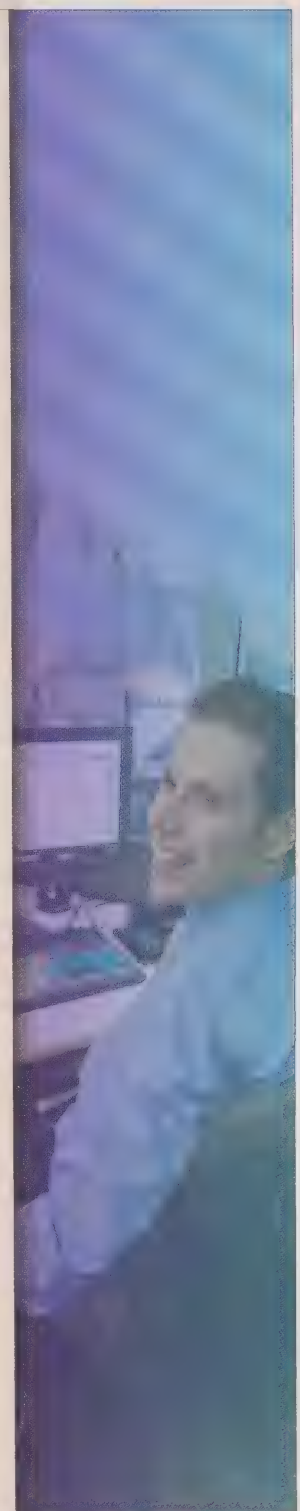
For fiscal 2004, we set out six corporate objectives. One was a full review of our strategic direction by management and the Board of Directors. At year-end, the fundamental architecture of our new strategy had been approved by the board and is in the process of being implemented.

Another objective was to provide cash liquidity to the CPP so that it can meet its payment obligations. We have put staff and cash management systems in place in preparation for the cash transfer that will begin in September 2004.

Two additional objectives were related to our public equity investing. In July 2003, we moved from a strategy of traditional passive index investing on a regional basis to one based primarily on 12 key economic sectors globally. Our objective is to build a passive portfolio with a sector allocation that reflects global conditions. We also expanded the active management of public equities through an active overlay program. We retained two active managers, each managing the equivalent of $500 million. These managers combine research, portfolio management and risk management capabilities with demonstrated ability to add value.

The fifth objective was to search for attractive real return assets, such as real estate, infrastructure assets and real return bonds. During fiscal 2004 we committed $100 million to real estate assets, and made our first foray into an infrastructure fund with a commitment of $100 million.

The final objective was to strengthen our enterprise-wide risk management system by expanding our control and monitoring of external service providers, which we have done by establishing and implementing monitoring guidelines and procedures based on regulatory best practices.



Performance Review

For fiscal 2005, we have identified five corporate objectives. First, we will strengthen our human resources systems and practices and complete the next phase of our recruitment program. Second, we will present three to five year departmental strategies to the Board of Directors.

Third, we will evolve our information technology infrastructure to support research, trading and information and document management.

Fourth, we will expand our suite of performance metrics to assess our success in meeting the objectives of the operational plan.

Finally, we will ensure that the CPP has sufficient funds to pay benefits and its ongoing expenses.

Investment Partners

REAL ESTATE

LASALLE INVESTMENT MANAGEMENT
OSMINGTON
RETIREMENT RESIDENCES REAL ESTATE INVESTMENT TRUST

INFRASTRUCTURE

MACQUARIE BANK LIMITED

GENERAL PARTNERS

ADVENT INTERNATIONAL
ALPINVEST PARTNERS
APOLLO MANAGEMENT, LP
ARES MANAGEMENT LLC
THE BLACKSTONE GROUP
BOREALIS CAPITAL CORPORATION
BRASCAN ASSET MANAGEMENT
BRIDGEPOINT CAPITAL LIMITED
CAI CAPITAL MANAGEMENT CO.
CANDOVER
THE CARLYLE GROUP
CELTIC HOUSE VENTURE PARTNERS
CLAIRVEST GROUP INC.
COLLER CAPITAL
CSFB PRIVATE EQUITY
EDGESTONE CAPITAL PARTNERS
GM ASSET MANAGEMENT
GOLDBERG LINDSEY & CO. LLC
HEARTLAND INDUSTRIAL PARTNERS
JP MORGAN PARTNERS
KENSINGTON CAPITAL PARTNERS LIMITED
LEHMAN BROTHERS PRIVATE EQUITY
LEXINGTON PARTNERS
MATLIN PATTERSON GLOBAL ADVISORS, LLC
MDS CAPITAL CORP.
MIDOCEAN PARTNERS
MPM CAPITAL
ONEX CORPORATION
PAI PARTNERS
PAUL CAPITAL PARTNERS
SCHRODER VENTURES LIFE SCIENCES
SKYPOINT CAPITAL CORPORATION
TERRA FIRMA CAPITAL PARTNERS
TEXAS PACIFIC GROUP
THOMAS WEISEL PARTNERS LLC
VENTURES WEST MANAGEMENT INC.

TRANSITION MANAGEMENT PARTNERS

BARCLAYS GLOBAL INVESTORS CANADA LIMITED
FRANK RUSSELL CANADA LIMITED
STATE STREET GLOBAL MARKETS CANADA INC.

ACTIVE OVERLAY MANAGERS

CONNOR, CLARK & LUNN INVESTMENT MANAGEMENT LTD.
UBS GLOBAL ASSET MANAGEMENT (CANADA) CO.

OTHER PARTNERS

ENTERPRISE CAPITAL

Management's Responsibility for Financial Reporting

The consolidated financial statements of the Canada Pension Plan Investment Board (the "CPP Investment Board") have been prepared by management and approved by the Board of Directors. Management is responsible for the integrity and reliability of the consolidated financial statements and the financial information contained within the annual report.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include certain amounts based on management's judgments and best estimates where deemed appropriate. The significant accounting policies used are disclosed in Note 1 to the consolidated financial statements. The financial information presented throughout the annual report is consistent with the consolidated financial statements.

The CPP Investment Board develops and maintains systems of internal control and supporting procedures. They are designed to provide reasonable assurance that assets are safeguarded, records are properly maintained and transactions are properly authorized and are in accordance with the *Canada Pension Plan Investment Board Act* and the accompanying regulations and the by-laws and investment policies of the CPP Investment Board. These controls include the establishment of an organizational structure that provides a well-defined division of responsibilities and accountability, the selection and training of qualified staff, and the communication of policies and guidelines throughout the organization. Internal controls are reviewed and evaluated by both internal and external auditors in accordance with their respective annual audit plans approved by the Audit Committee.

The Audit Committee assists the Board of Directors in discharging its responsibility to approve the annual financial statements. The Audit Committee, consisting of five independent directors, meets regularly with both management and the internal and external auditors to discuss the scope and findings of audits and other work they may be requested to perform from time to time, to review financial information and to discuss the adequacy of internal controls. The Audit Committee reviews and approves the annual financial statements and recommends them to the Board of Directors for approval.

The CPP Investment Board's external auditors, Deloitte & Touche LLP, have conducted an independent examination of the consolidated financial statements in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express an opinion in their Auditors' Report. The external auditors have full and unrestricted access to management and the Audit Committee to discuss any findings related to the integrity and reliability of the CPP Investment Board's financial reporting and the adequacy of internal control systems.

J. A. MacNaughton

JOHN A. MACNAUGHTON
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Jane Nyman

JANE NYMAN
VICE PRESIDENT — FINANCE AND OPERATIONS

Investment Certificate

The *Canada Pension Plan Investment Board Act* (the "Act") requires that a certificate be signed by a director on behalf of the Board of Directors, stating that the investments of the CPP Investment Board held during the year were in accordance with the Act and the CPP Investment Board's investment policies, standards and procedures. Accordingly, the Investment Certificate follows.

The investments of the CPP Investment Board, held during the year ended March 31, 2004, were in accordance with the *Canada Pension Plan Investment Board Act* and the CPP Investment Board's Investment Statement and Investment Policies.

Mary C. Arnold

MARY C. ARNOLD, FCA
CHAIR OF THE AUDIT COMMITTEE ON BEHALF OF THE BOARD OF DIRECTORS, MAY 6, 2004

Auditors' Report

To the Board of Directors
Canada Pension Plan Investment Board

We have audited the consolidated balance sheet and the consolidated statement of investment portfolio of the Canada Pension Plan Investment Board (the "CPP Investment Board") as at March 31, 2004 and the consolidated statements of income/(loss) and accumulated net income/(loss) from operations and of changes in net assets for the year then ended. These consolidated financial statements are the responsibility of the CPP Investment Board's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the CPP Investment Board and the investments held as at March 31, 2004 and the results of its operations and changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles, which were applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the CPP Investment Board that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with the *Canada Pension Plan Investment Board Act* (the "Act") and the by-laws.

Further, in our opinion, the record of investments kept by the CPP Investment Board's management pursuant to paragraph 39(1)(c) of the Act fairly presents, in all material respects, the information required by the Act.

Deloitte & Touche LLP

CHARTERED ACCOUNTANTS
TORONTO, ONTARIO APRIL 30, 2004

Consolidated Balance Sheet

As at March 31, 2004 ($000's)	**2004**	2003
ASSETS		
Investments (Note 2)	**$ 32,991,204**	$ 17,861,767
Investment receivables (Note 2)	**102,363**	40,624
Due from brokers	**13,917**	35,005
Premises and equipment	**974**	1,112
Other assets	**1,828**	980
TOTAL ASSETS	**33,110,286**	17,939,488
LIABILITIES		
Investment liabilities (Note 2)	**199,358**	449,757
Due to brokers	**108,722**	34,497
Accounts payable and accrued liabilities	**6,860**	4,490
TOTAL LIABILITIES	**314,940**	488,744
NET ASSETS	**$ 32,795,346**	$ 17,450,744
NET ASSETS, REPRESENTED BY		
Share capital (Note 4)	**$ —**	$ —
Accumulated net income/(loss) from operations	**2,970,791**	(4,238,916)
Accumulated Canada Pension Plan transfers	**29,824,555**	21,689,660
NET ASSETS	**$ 32,795,346**	$ 17,450,744

On behalf of the Board of Directors

GAIL COOK-BENNETT
CHAIRPERSON

MARY C. ARNOLD, FCA
CHAIR OF THE AUDIT COMMITTEE

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statement of Income/(Loss) and Accumulated Net Income/(Loss) from Operations

Year ended March 31, 2004 ($000's)	**2004**	2003
INVESTMENT INCOME/(LOSS), NET OF EXTERNAL INVESTMENT MANAGEMENT FEES (Note 6)	**$ 7,228,609**	$ (4,141,233)
OPERATING EXPENSES		
General operating expenses (Note 7a)	**7,746**	4,835
Salaries and benefits (Note 7b)	**7,287**	4,796
Professional and consulting fees (Note 7c)	**3,869**	1,426
	18,902	11,057
NET INCOME/(LOSS) FROM OPERATIONS	**7,209,707**	(4,152,290)
ACCUMULATED NET LOSS FROM OPERATIONS, BEGINNING OF YEAR	**(4,238,916)**	(86,626)
ACCUMULATED NET INCOME/(LOSS) FROM OPERATIONS, END OF YEAR	**$ 2,970,791**	$ (4,238,916)

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2004 ($000's)	**2004**	2003
NET ASSETS, BEGINNING OF YEAR	**$ 17,450,744**	$ 14,284,966
CHANGES IN NET ASSETS		
Canada Pension Plan transfers (Note 5)	**8,134,895**	7,318,068
Net income/(loss) from operations	**7,209,707**	(4,152,290)
INCREASE IN NET ASSETS FOR THE YEAR	**15,344,602**	3,165,778
NET ASSETS, END OF YEAR	**$ 32,795,346**	$ 17,450,744

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statement of Investment Portfolio

The CPP Investment Board's investments, before allocating derivative contracts and associated money market securities and other investment liabilities and receivables to the asset classes to which they relate, are as follows:

	Fair Value	
As at March 31, 2004 ($000's)	**2004**	2003
EQUITIES (Note 2)		
Canada		
Public markets	**$ 18,045,921**	$ 11,050,810
Private markets	**281,602**	260,609
	18,327,523	11,311,419
Non-Canada		
Public markets	**7,552,200**	4,245,184
Private markets	**1,529,698**	1,264,851
	9,081,898	5,510,035
TOTAL EQUITIES		
(Cost: 2004 – $25,034,281; 2003 – $20,335,762)	**27,409,421**	16,821,454
REAL RETURN ASSETS (Note 2b)		
Public markets real estate	**350,480**	218,488
Private markets real estate	**431,848**	246,484
Private markets infrastructure	**22,013**	—
TOTAL REAL RETURN ASSETS		
(Cost: 2004 – $829,325; 2003 – $644,914)	**804,341**	464,972
NOMINAL FIXED INCOME		
Money market securities		
(Cost: 2004 – $4,783,899; 2003 – $575,377)	**4,777,442**	575,341
TOTAL INVESTMENTS	**32,991,204**	17,861,767
INVESTMENT RECEIVABLES		
Derivative receivables (Note 2a)	**34,394**	—
Dividends receivable	**65,289**	40,272
Accrued interest	**2,680**	352
TOTAL INVESTMENT RECEIVABLES		
(Cost: 2004 – $68,142; 2003 – $40,716)	**102,363**	40,624
INVESTMENT LIABILITIES		
Debt on real estate properties (Note 2b)	**(170,797)**	(152,000)
Derivative liabilities (Note 2a)	**(28,561)**	(785)
Due to private equity partnerships (Note 2d)	—	(171,972)
Credit facility (Note 3)	—	(125,000)
TOTAL INVESTMENT LIABILITIES		
(Cost: 2004 – $169,619; 2003 – $452,067)	**(199,358)**	(449,757)
NET INVESTMENTS	**$ 32,894,209**	$ 17,452,634

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statement of Investment Portfolio

The CPP Investment Board's investments, after allocating derivative contracts and associated money market securities and other investment liabilities and receivables to the asset classes to which they relate, are as follows:

As at March 31, 2004 ($000's)	**2004**		2003	
	Fair Value	**(%)**	Fair Value	(%)
EQUITIES[1]				
Canada	**$ 22,571,543**	**68.6%**	$ 11,560,652	66.2%
Non-Canada[2]	**9,326,240**	**28.4%**	5,510,035	31.6%
REAL RETURN ASSETS				
Real estate[3]	**611,531**	**1.9%**	312,972	1.8%
Infrastructure	**22,013**	**0.1%**	—	—
NOMINAL FIXED INCOME				
Money market securities[4]	**362,882**	**1.0%**	68,975	0.4%
	$ 32,894,209	**100.0%**	$ 17,452,634	100.0%

[1] Includes derivative contracts and associated money market securities as described more fully in Note 2a.
[2] Includes private equity liabilities offset by money market securities held to discharge those liabilities, as described more fully in Note 2d.
[3] Net of mortgage debt on real estate properties as described more fully in Note 2b.
[4] Includes credit facility liability, accrued interest and dividends receivable.

See accompanying Notes to the Consolidated Financial Statements

ORGANIZATION

The Canada Pension Plan Investment Board (the "CPP Investment Board") was formed pursuant to the *Canada Pension Plan Investment Board Act* (the "Act"). The CPP Investment Board is responsible for managing amounts that are transferred to it under Section 111 of the *Canada Pension Plan* in the best interests of the beneficiaries and contributors under that Act. The amounts are to be invested with a view to achieving a maximum rate of return without undue risk of loss, having regard to the factors that may affect the funding of the Canada Pension Plan (the "CPP") and the ability of the CPP to meet its financial obligations.

The CPP Investment Board has a fiscal year end of March 31.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF PRESENTATION

These financial statements present the consolidated financial position and operations of the CPP Investment Board and its wholly-owned subsidiaries. The financial statements include only a portion of the assets (as described in Note 2) and none of the pension liabilities of the CPP. The statements have been prepared in accordance with Canadian generally accepted accounting principles and the requirements of the Act and the accompanying regulations.

Certain comparative figures have been reclassified to conform with the current year presentation.

(b) VALUATION OF INVESTMENTS, INVESTMENT RECEIVABLES, AND INVESTMENT LIABILITIES

Investments, investment receivables and investment liabilities are recorded as of the trade date and are stated at fair value. Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Fair value is determined as follows:

(i) Quoted market prices for publicly traded equities and unit values for public equity funds are used to represent fair value for these investments. Unit values reflect the quoted market prices of the underlying securities.

(ii) In the case of private equity investments and infrastructure funds, where quoted market prices are not available, fair value is determined annually, commencing after the first year of ownership, based on carrying values and other relevant information reported by external managers of the limited partnerships or funds in which the investments are made. These carrying values are determined by the external managers using accepted industry valuation methods. These methodologies include considerations such as earnings multiples of comparable publicly traded companies, discounted cash flows and third party transactions, or other events which suggest material impairment or improvement in the fair value of the investment. On a quarterly basis, when there is evidence of a significant change in fair value, the valuation is adjusted, as appropriate. In the first year of ownership, cost is generally considered to be an appropriate estimate of fair value for private equity investments and infrastructure funds, unless there is an indication of permanent impairment of value.

(iii) The fair value of private market investments in real estate properties is determined annually, commencing after the first year of ownership, using accepted industry valuation methods, such as discounted cash flows and comparable purchase and sales transactions. In the first year of ownership, cost is generally considered to be an appropriate estimate of fair value for real estate. Debt on real estate investments is valued using discounted cash flows based on current market yields for instruments with similar characteristics.

(iv) Fair value for over-the-counter derivatives such as swaps is determined based on the market prices for underlying assets with similar characteristics. Fair value for exchange-traded futures is based on quoted market prices.

(v) Money market securities are recorded at cost which, together with accrued interest income, approximates fair value.

(c) INVESTMENT INCOME RECOGNITION

Investment income is recorded on the accrual basis and includes realized gains and losses on disposal of investments, unrealized gains and losses on investments held at the end of the year, dividend income (recognized on ex-dividend date), interest income, distributions from partnerships and trusts, and net operating income from private market real estate investments.

Realized gains and losses on investments sold during the year represent the difference between sale proceeds and cost, less related costs of disposition. Unrealized gains and losses represent the difference between the fair value and cost of the investments. The current year unrealized gains and losses represent the year-over-year change in this difference.

(d) TRANSLATION OF FOREIGN CURRENCIES

Transactions in foreign currencies are recorded at the rates of exchange prevailing on the transaction date. Investments denominated in foreign currencies and held at the year end are translated at exchange rates in effect at the year end date. The resulting realized and unrealized gains and losses are included in investment income.

(e) CANADA PENSION PLAN TRANSFERS

Amounts received from the CPP are recorded on a cash basis.

(f) INCOME TAXES

The CPP Investment Board is exempt from Part I tax under paragraph 149(1)(d) of the *Income Tax Act (Canada)* on the basis that all of the shares of the CPP Investment Board are owned by Her Majesty in right of Canada. The CPP Investment Board's subsidiaries are exempt from Part I tax under paragraph 149(1)(d.2) of the *Income Tax Act (Canada)* on the basis that all of the shares of the subsidiaries are owned by a corporation whose shares are owned by Her Majesty in right of Canada.

(g) USE OF ESTIMATES

In preparing these financial statements, management makes certain estimates and assumptions which can affect the reported values of assets and liabilities, related income and expenses and note disclosures. Actual results could differ from these estimates.

2. INVESTMENTS, INVESTMENT RECEIVABLES AND INVESTMENT LIABILITIES

The CPP Investment Board has established investment policies which set out the manner in which assets shall be invested. In determining the asset mix, the CPP Investment Board takes into consideration certain assets of the CPP which are held outside of the CPP Investment Board. As at March 31, 2004, these assets total approximately $33.0 billion at cost (2003 – $33.7 billion) and consist primarily of provincial debt obligations.

The Consolidated Statement of Investment Portfolio provides information on the investments and related receivables and liabilities held as at March 31, 2004.

(a) DERIVATIVE CONTRACTS

A derivative is a financial contract, the value of which is derived from the value of underlying assets, indexes, interest rates or currency exchange rates.

The CPP Investment Board uses derivatives primarily to replicate the return of Canadian and Non-Canadian equity indexes. As at March 31, 2004, the CPP Investment Board has equity swaps outstanding to exchange money market interest for equity returns. The CPP Investment Board also uses exchange-traded futures contracts to achieve the desired broad market exposure to the equity markets while cash is being held to fund investment activities.

All derivative contracts have a term to maturity of one year or less. Notional amounts of derivative contracts are used to compute the cash flows and for determining the fair value of the contracts. Notional amounts are not recorded as assets or liabilities on the balance sheet. The notional amounts and fair value of derivative contracts held as at March 31 are as follows:

($000's)	**2004**		2003	
	Notional Amount	**Fair Value**	Notional Amount	Fair Value
Equity swaps	**$ 4,034,278**	**$ 9,288**	$ 250,000	$(785)
Equity futures	**448,249**	**(3,455)**	—	—
Total	**$ 4,482,527**	**$ 5,833**	$ 250,000	$(785)

Consistent with the investment policies, derivative contracts are fully covered by money market securities. The economic impact on the total asset mix is to increase Canada and Non-Canada equities exposure by 12.9% (2003 – 1.4%) and 0.8% (2003 – Nil%), respectively, with a corresponding decrease in money market securities exposure.

(b) REAL RETURN ASSETS

During the current year, the CPP Investment Board made its first investment in a private market infrastructure fund. As at March 31, 2004, the CPP Investment Board has advanced $22,013,000.

The CPP Investment Board obtains exposure to real estate through investments in publicly traded securities and privately held real estate. Private real estate investments are held by a subsidiary and are managed on behalf of the CPP Investment Board by external advisors and managers through co-ownership arrangements. As at March 31, 2004, the subsidiary's share of these investments includes assets of $431,848,000 (March 31, 2003 – $246,484,000) and

$170,797,000 of liabilities related to mortgage debt (March 31, 2003 – $152,000,000), with a weighted average fixed interest rate of 6.86% and terms to maturity of three to seven years.

(c) INVESTMENT RECEIVABLES

Investment receivables include dividends receivable of $65,289,000 (2003 – $40,272,000) on public market equities and accrued interest of $2,680,000 (2003 – $352,000) on money market securities.

(d) DUE TO PRIVATE EQUITY PARTNERSHIPS

Amounts due to partnerships at March 31, 2003 represented the second installment owing to a limited partnership relating to the purchase by the partnership during that year of a portfolio of private equity investments. The amount was paid in September 2003.

(e) PRIVATE EQUITY AND INFRASTRUCTURE MANAGEMENT FEES

Private equity and infrastructure investments are generally made by buying interests in limited partnerships with a typical term of 10 years. The private equity limited partnerships' underlying investments represent equity ownerships or investments with the risk and return characteristics of equity.

The CPP Investment Board advances capital to the limited partnerships, a portion of which, commonly referred to as management fees, is used by the general partners to select and provide ongoing management support to the underlying companies. Management fees generally vary between 1% and 2% of the total amount committed to the limited partnerships, and are included as part of the CPP Investment Board's cost of the investments. During the year ended March 31, 2004, management fees totalling $64 million (2003 – $47 million) were included in the capital advanced to the limited partnerships. As discussed more fully in Note 1b, the carrying values of these investments, which include these management fees, are reviewed at least annually and any resulting adjustments are reflected as gains or losses in net unrealized investment income/(loss) (see Note 6a).

(f) COMMISSIONS

Commissions are paid to brokers on purchases and sales of publicly traded equities. Commissions on purchases are included as part of the cost of publicly traded equities. Commissions on sales are deducted from realized gains and losses as a cost of disposition. During the year ended March 31, 2004, the CPP Investment Board paid total brokerage commissions of $14 million (2003 – $6 million).

(g) FOREIGN CURRENCY RISK

The CPP Investment Board is exposed to currency risk through holdings of Non-Canadian investments, investment receivables and investment liabilities. Investments are not hedged against changes in foreign exchange rates. The underlying currency exposures as at March 31, 2004 are as follows:

($000's)	**2004**		2003	
Currency	**Exposure**	**% of Total**	Exposure	% of Total
United States Dollar	**$ 5,602,374**	**58%**	$ 3,091,739	56%
Euro	**1,557,313**	**16%**	1,020,149	19%
British Pound Sterling	**932,450**	**10%**	577,369	10%
Japanese Yen	**697,546**	**7%**	448,268	8%
Swiss Franc	**349,330**	**4%**	166,886	3%
Australian Dollar	**136,968**	**1%**	111,940	2%
Other	**342,416**	**4%**	125,325	2%
	$ 9,618,397	**100%**	$ 5,541,676	100%

(h) CREDIT RISK

The CPP Investment Board limits credit risk by dealing with counterparties that have a minimum credit rating of A or R-1 (short-term) as determined by a recognized credit rating agency, where available, or as determined through an internal credit rating process. Credit exposure is limited to maximum amounts approved by the Board of Directors.

(i) SECURITIES LENDING

The CPP Investment Board participates in a securities lending program to enhance portfolio returns. Credit risk associated with the securities lending program is mitigated by requiring the borrower to provide daily collateral in the form of readily marketable investments of greater market value than the securities loaned. As at March 31, 2004, the CPP Investment Board's investments include loaned securities with an estimated fair value of $721 million (2003 – $Nil). The fair value of collateral received in respect of these loans is $758 million (2003 – $Nil).

3. CREDIT FACILITY

The CPP Investment Board maintains a $300,000,000 unsecured credit facility to meet potential liquidity requirements relating to investment activities. As at March 31, 2004, the total amount drawn on the credit facility is $Nil (2003 – $125,000,000). Consistent with the investment policies, the credit facility is repaid within 45 days of draw date.

4. SHARE CAPITAL

The issued and authorized share capital of the CPP Investment Board is $100 divided into 10 shares having a par value of $10 each. The shares are owned by Her Majesty in right of Canada.

5. CANADA PENSION PLAN TRANSFERS

Section 111 of the *Canada Pension Plan* provides for the transfer to the CPP Investment Board of amounts that exceed the immediate obligations of the CPP. The funds come from both employer and employee contributions to the CPP, proceeds of maturing and redeemed government bonds held in a portfolio administered by the federal government, and interest income generated from this portfolio. During the year, a total of $8,134,895,000 (2003 – $7,318,068,000) was transferred to the CPP Investment Board.

6. INVESTMENT INCOME/(LOSS), NET OF EXTERNAL INVESTMENT MANAGEMENT FEES

(a) INVESTMENT INCOME/(LOSS), NET OF EXTERNAL INVESTMENT MANAGEMENT FEES

Investment income/(loss) is reported net of external investment management fees. Investment management fees in respect of public markets investments are expensed as incurred. Investment management fees for private markets real estate investments are deducted by the asset manager before the CPP Investment Board receives its share of net operating income from the properties. For a discussion of private equity and infrastructure management fees, see Note 2e.

Investment income/(loss) by asset class, net of external investment management fees and after giving effect to derivative contracts and investment receivables and liabilities, is as follows:

($000's)	**2004**	2003
EQUITIES[1]		
Canada		
Public markets	**$ 5,376,659**	$(2,288,626)
Private markets[2]	**(13,595)**	(3,505)
	5,363,064	(2,292,131)
Non-Canada		
Public markets	**1,546,533**	(1,578,225)
Private markets[2]	**174,302**	(98,291)
	1,720,835	(1,676,516)
Less: Public markets external investment management fees	**(753)**	(1,809)
	7,083,146	(3,970,456)
REAL RETURN ASSETS		
Public markets real estate[3]	**151,961**	(172,576)
Private markets real estate[4]	**30,693**	921
Less: External investment management fees	**(4,385)**	(285)
	26,308	636
	178,269	(171,940)
NOMINAL FIXED INCOME		
Money market securities[5]	**(32,806)**	1,163
INVESTMENT INCOME/(LOSS), NET OF EXTERNAL INVESTMENT MANAGEMENT FEES[6]	**$ 7,228,609**	$ (4,141,233)

1 Includes unrealized gains of $5,908,112,000 (2003 – unrealized losses of $3,084,016,000), realized gains of $690,622,000 (2003 – realized losses of $1,528,765,000), dividends of $484,412,000 (2003 – $281,533,000) and distributions of capital gains and dividends from public equity pooled and mutual funds of $Nil (2003 – $360,792,000).

2 As described more fully in Note 2e, the carrying values of private equity investments, including management fees, are reviewed at least annually and any resulting adjustments are reflected as gains or losses in net unrealized investment income/(loss).

3 Includes unrealized gains of $131,995,000 (2003 – unrealized losses of $180,826,000), realized losses of $4,000 (2003 – realized gains of $2,233,000) and dividends of 19,970,000 (2003 – $6,017,000).

4 Includes private market real estate operating income of $20,795,000 (2003 – $921,000), which is net of debt interest of $17,260,000 (2003 – $3,014,000), and unrealized gains of $9,898,000 (2003 – $Nil). Realized gains were $Nil (2003 – $Nil).

5 Includes realized losses of $32,955,000 (2003 – realized gains of $1,149,000) and unrealized gains of $149,000 (2003 – unrealized gains of $14,000).

6 Includes foreign exchange losses of $392,607,000 (2003 – foreign exchange losses of $244,697,000).

(b) INVESTMENT PERFORMANCE

Portfolio returns and benchmark returns are as follows:

	2004		2003	
	Portfolio Returns	**Benchmark Returns**	Portfolio Returns	Benchmark Returns
Canadian equity investments	**34.3%**	**37.0%**	(17.3)%	(17.5)%
Non-Canadian equity investments	**24.5%**	**29.5%**	(27.6)%	(28.0)%
Real return assets	**50.5%**	**15.3%**	(50.7)%	9.2%
Total	**31.7%**	**34.4%**	(21.1)%	(20.3)%

Commencing July 1, 2003, the benchmark returns for both public and private equities were based on relevant S&P/Citigroup benchmark returns and aggregated according to the benchmark weights specified in the investment policies. The benchmark for real estate and infrastructure is the Scotia Capital Real Return Bond Index. Prior to July 1, 2003, the benchmarks were based on the S&P/TSX Composite for Canadian public and private equity investments, a combination of the S&P 500 and the MSCI EAFE for Non-Canadian public and private equity investments, and CPI + 4.5% for real return assets.

The total portfolio benchmark return aggregates the asset class benchmark returns according to the weights specified in the investment policies. Returns have been calculated in accordance with the methods set forth by the Association for Investment Management and Research.

7. OPERATING EXPENSES

(a) GENERAL OPERATING EXPENSES

General operating expenses consist of the following:

($000's)	**2004**	2003
Office rent, supplies and equipment	**$ 2,158**	$ 1,537
Custodial fees	**1,973**	876
Technology, data and analytical services	**1,210**	674
Communication expenses	**813**	673
Travel and accommodation	**477**	421
Directors' remuneration	**426**	373
Internal audit	**292**	104
Other operating expenses	**397**	177
	$ 7,746	$ 4,835

Directors' remuneration includes an annual retainer for each director of $14,000 (2003 – $14,000), board and committee meeting fees of $1,000 per meeting (2003 – $1,000), plus an additional annual retainer of $3,250 for each committee chair (2003 – $3,250). Separate fees are not paid for investment committee meetings when they are held on the same day as board meetings, which is the usual custom. The Chair of the Board of Directors receives $85,000 in annual compensation but is not eligible to receive annual or committee chair retainers or meeting fees unless the fees relate to public meetings. In fiscal 2004, the Chair received a total of $85,000 (2003 – $96,000).

In fiscal 2004, the Board of Directors held 9 board and investment committee meetings (2003 – 8) and 22 other committee meetings (2003 – 15).

(b) EXECUTIVE COMPENSATION

The CPP Investment Board determines executive compensation based on compensation principles approved by the Board of Directors.

Compensation earned by the five most highly compensated executive officers of the CPP Investment Board during fiscal 2004 amounted to $2,391,044 (2003–$1,684,254) and consisted of the following:

Name	Year	Salary	Annual[1] Bonus	Long-Term[1] Bonus	Benefits[2]	Other Compensation
John A. MacNaughton *President and Chief Executive Officer*	**2004** 2003	**$ 415,000** $ 400,000	**$ 250,000** $ 90,000	**$ 188,027** $ 24,875	**$ 71,288** $ 55,944	
Valter Viola *Vice President – Research and Risk Management*	**2004** 2003	**$ 195,000** $ 180,600	**$ 113,880** $ 69,500	**$ 100,320** $ —	**$ 27,236** $ 21,266	
Mark Weisdorf[3] *Vice President – Private Market Investments*	**2004** 2003	**$ 159,664** $ 215,000	**$ —** $ 80,500	**$ —** $ —	**$ 11,893** $ 30,452	**$ 211,849**
Donald Raymond *Vice President – Public Market Investments*	**2004** 2003	**$ 205,000** $ 185,000	**$ 131,200** $ 74,000	**$ —** $ —	**$ 25,843** $ 24,278	
Jane Nyman *Vice President – Finance and Operations*	**2004** 2003	**$ 185,000** $ 170,000	**$ 60,125** $ 41,000	**$ 22,842** $ 4,039	**$ 16,877** $ 17,800	

1 Bonus awards include an annual and a long-term component and are based on the achievement of agreed objectives. The long-term bonus reflects amounts payable for the current year. Additionally, long-term bonuses awarded but not yet paid include approximately $518,487 for payment in 2005, $488,608 for payment in 2006, and $602,600 for payment in 2007. These amounts are adjusted annually by the total portfolio return. The payment of the long-term bonus is subject to executive officers meeting certain conditions of employment. Total long-term bonuses awarded but not yet paid, by officer, are as follows:

John A. MacNaughton	$583,807
Valter Viola	$459,983
Donald Raymond	$418,587
Jane Nyman	$147,318

2 Benefits include pension contributions in connection with a defined contribution registered pension plan and a defined contribution supplementary pension plan, life insurance, club dues, and other miscellaneous non-cash remuneration. Under the defined contribution registered pension plan, executive officers contribute 3% of annual eligible earnings and the CPP Investment Board contributes 6% to the maximum allowed under the *Income Tax Act (Canada)*. Eligible earnings include salary and taxable benefits plus annual bonus to a maximum of 50% of total salary and taxable benefits. The CPP Investment Board's contributions vest with the employee after two years of continuous service. Under the defined contribution supplementary pension plan, which is unfunded, executive officers earn contribution credits equal to 9% of their eligible earnings in excess of the maximum eligible earnings under the registered pension plan. Contributions vest with the employee after five years of continuous service. The total unfunded liability as at March 31, 2004 is $250,604 (2003 – $171,707).

3 Mr. Weisdorf ceased employment with the CPP Investment Board effective December 5, 2003. The amount reported under Other Compensation reflects a lump-sum payment payable on May 30, 2004, together with interest thereon at prime calculated from December 5, 2003, pursuant to a separation agreement entered into with Mr. Weisdorf on November 28, 2003 in connection with his cessation of employment.

(c) PROFESSIONAL AND CONSULTING FEES

Professional and consulting fees consist of the following:

($000's)	2004	2003
Consulting[1]	$ 1,759	$ 409
Professional accounting and external audit[2]	1,146	550
Legal	964	467
	$3,869	$ 1,426

1 Includes non-audit-related fees of $27,000 (2003 – $Nil) that were paid to the external auditors of the CPP Investment Board.
2 Includes audit fees of $557,000 (2003 – $370,000), other audit-related fees of $101,000 (2003 – $180,000) and fees to date of $488,000 (2003 – $Nil) for the special examination carried out by the external auditors pursuant to the Act.

8. COMMITMENTS

The CPP Investment Board has committed to enter into investment transactions, which will be funded over the next several years in accordance with the agreed terms and conditions. As at March 31, 2004, these outstanding commitments total $3.9 billion (2003 – $3.9 billion).

The organization has made lease commitments of $21.0 million over the next 10 years.

9. GUARANTEES AND INDEMNIFICATIONS

Effective fiscal 2004, the CPP Investment Board adopted a new accounting guideline on the disclosure of guarantees. The CPP Investment Board provides guarantees to its officers, directors and various counterparties as part of its standard indemnification agreements. Under these agreements, the CPP Investment Board may be required to compensate these parties for costs incurred as a result of various contingencies such as changes in laws and regulations and litigation claims. The contingent nature of the indemnification agreements prevents the CPP Investment Board from making a reasonable estimate of the maximum potential payments the CPP Investment Board could be required to make. To date, the CPP Investment Board has not received any claims nor made any payments for such indemnifications.

10. LEGISLATIVE AMENDMENT

Legislation to amend the *Canada Pension Plan* and the *Canada Pension Plan Investment Board Act* came into force on April 1, 2004. The amended legislation and a related administrative agreement provide for the transfer of CPP assets currently administered by the federal government to the CPP Investment Board beginning in fiscal 2005. These assets include a bond portfolio with a cost of $25.5 billion as at March 31, 2004, which will be transferred to the CPP Investment Board over a three-year period beginning May 1, 2004. The assets also include a cash operating reserve which will be transferred over a 12-month period beginning in September 2004. At March 31, 2004, the cash operating reserve is $7.5 billion.

Canada Pension Plan Investment Board Regulations require disclosure in the annual report of the governance practices of the Board of Directors. More extensive governance information is posted at www.cppib.ca.

DUTIES, OBJECTIVE AND MANDATE OF THE BOARD OF DIRECTORS

The board is responsible for the stewardship of the CPP Investment Board, including oversight of management.

As fiduciaries, directors are required to act honestly and in good faith in the best interests of CPP contributors and beneficiaries. They must exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Directors must use their specialist knowledge in carrying out their duties and are subject to higher standards of care in areas that relate to their expertise.

Among other duties, the directors review and approve investment policies, standards and procedures; appoint the Chief Executive Officer and annually review his performance; determine with management the organization's strategic direction; review and approve the annual business plan and budget; appoint independent internal and external auditors; establish procedures to identify and resolve conflicts of interest; establish codes of conduct for directors and employees; assess the performance of the board itself; and review and approve the stakeholder communications strategy including material disclosure such as quarterly and annual financial statements and the annual report.

COMPOSITION, MANDATES AND ACTIVITIES OF BOARD COMMITTEES

The board has four committees. The Investment Committee consists of the full board. The membership of other committees is shown on the inside back cover.

The Investment Committee reviews and recommends our Investment Statement to the board for approval, and reviews, approves and monitors the CPP Investment Board's investment program. It also reviews portfolio risk tolerance and approves the engagement of external investment managers and new or large mandates and custodians.

The Audit Committee oversees financial reporting, the external and internal audit, information systems and internal control policies and practices. It also oversees aspects of the employee pension plans and advises the board in connection with any statutorily mandated special examinations. Responsibility for enterprise-wide risk management is shared with the board and other committees. It regularly meets with both external and internal auditors without management present.

The Human Resources and Compensation Committee administers a performance evaluation process for the Chief Executive Officer, reviews and recommends the compensation philosophy, reviews organizational structure and ensures succession planning. It also oversees employee benefits and human resource policies, aspects of the employee pension plans and directors' compensation.

The Governance Committee monitors application of the code of conduct and conflict of interest guidelines; recommends governance initiatives; makes recommendations to the board to improve the board's effectiveness; reviews criteria for new directors; establishes and recommends a performance evaluation process for the Chief Executive Officer; and assumes other duties at the board's request.

DECISIONS REQUIRING PRIOR BOARD APPROVAL

Management's discretion in making operational and investment decisions is established in board-approved policies. The board is required to consider and approve the majority of the recommendations made by management to board

committees. In particular, board approval is required for the strategic direction for the organization, and the annual business plan and budget. Annual and incentive-based compensation, as well as officer appointments, require board approval.

PROCEDURES FOR THE ASSESSMENT OF BOARD PERFORMANCE

Soon after its inception in October 1998, the board established an annual process for evaluating its own performance and that of its committees. The assessments are conducted through confidential questionnaires that are summarized by an independent consultant. The summaries are reviewed by the full board and help to focus the directors on their fiduciary duties in representing the best interests of CPP contributors and beneficiaries. The board also conducts a confidential annual peer review to assist each director in identifying self-development initiatives and to provide the external nominating committee with guidance when it considers individual re-appointments.

BOARD EXPECTATIONS OF MANAGEMENT

Management is expected to comply with the *Canada Pension Plan Investment Board Act* and the *Canada Pension Plan Investment Board Regulations* as well as all policies approved by the board. Management develops, with involvement from the board, the strategic direction of the organization in response to its growing asset management responsibilities and the changing dynamics and expectations of capital markets. The strategic response incorporates risk management policies and controls as well as monitoring and reporting mechanisms.

Management is charged with developing benchmarks that objectively measure the performance of markets and asset classes in which CPP assets are invested. Benchmarks assist the board in evaluating management's investment performance and structuring performance-based compensation incentives.

Management is expected to make full and timely disclosure to the board and the public of all material activities, including new investments, the retention of operational and investment partners, quarterly and annual financial results, and developments that may affect the CPP Investment Board's reputation.

TOTAL COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

The total compensation of directors is summarized in Note 7(a) to the financial statements. Board compensation is based on the 1999 median compensation for directors of the 300 companies that formed the previous TSE 300 Composite Index on the Toronto Stock Exchange.

The total compensation of the five mostly highly paid officers of the corporation is detailed in Note 7(b) to the financial statements. Officer compensation is partially incentive-based and is reviewed annually by the board.

RESULTS OF SPECIAL AUDIT OR SPECIAL EXAMINATION

Under the *Canada Pension Plan Investment Board Act*, the Minister of Finance can order a special audit at any time, and must initiate a special examination of the CPP Investment Board's systems and practices at least once every six years. The first special examination began in February 2004 and the results will be presented in next year's annual report.

CONFLICT OF INTEREST PROCEDURES

Conflicts of interest were anticipated in the CPP Investment Board's legislation as a result of the federal and provincial governments' desire to recruit directors with financial and investment expertise and to engage employees with financial expertise. Codes of conduct have been established to manage and where possible eliminate such conflicts. The procedures under the legislation and these codes of conduct are designed to ensure that directors and employees do not profit or otherwise benefit from a transaction by or with the CPP Investment Board. Stringent disclosure of any personal

or business interest that might lead to a real, potential or perceived conflict is required. The process for identifying, reporting and discussing such conflicts culminates with the board's Governance Committee recommending a resolution to the full board.

CODES OF CONDUCT

Codes of conduct for directors and employees are designed to create a corporate culture of trust, honesty and integrity. Conflict of interest procedures deal with such matters as relations with suppliers, personal investments, and confidentiality of proprietary information. For example, the codes establish strict pre-clearance procedures for personal trading in securities issued by companies. They also deal with the acceptance by directors and employees of entertainment, gifts or favours that could create or appear to create a favoured position for contractors or suppliers.

BOARD ATTENDANCE: FISCAL 2004

The board held nine meetings in fiscal 2004. The Investment Committee is a committee of the full board. The table below reflects the number of meetings attended by each director relative to the total meetings that director could have attended.

	Board & Investment Committee	Audit Committee	Governance Committee	HR & Compensation Committee
Mary Arnold	8/9	6/6		
Gail Cook-Bennett*	9/9	6/6	7/7	5/5
Germaine Gibara	8/9		7/7	
Gilbert Gill	9/9	6/6		
Jacob Levi	9/9	6/6		5/5
Helen Meyer	9/9	6/6		5/5
Dale Parker	9/9		7/7	
Joe Regan	9/9			5/5
Helen Sinclair	9/9		7/7	5/5
Ronald Smith	8/9	5/6		
David Walker	9/9		6/7	5/5

* The Chair is not a member of the Audit Committee or HR & Compensation Committee, but attends their meetings.

VISION

To be respected by Canadians for delivering superior investment performance and effective stakeholder communications through an organization built on shared values, sound governance and management excellence.

MISSION

To manage the assets entrusted to the CPP Investment Board in the best interests of Canada Pension Plan contributors and beneficiaries.

To invest in ways that over the long term will maximize returns without undue risk while having regard to factors that may affect the Canada Pension Plan's funding and its ability to meet its obligations.

To help Canadians understand what we are doing with their money through communications and stakeholder relations that exceed statutory reporting obligations.

VALUES

Ethical Conduct We will exemplify the highest standards of ethical conduct in all that we do. We will comply with all applicable laws and the CPP Investment Board's policies, guidelines and procedures. We will behave in accordance with the codes of conduct and standards of our professions and industry associations.

Excellence We will strive for excellence in all of our endeavours. This will include both our performance outcomes and the processes that we use to achieve them.

Accountability Accountability is critical to achieving our mission. We will delegate clear and appropriate accountability and authority to

individuals throughout the organization and ensure that it is coupled with commensurate authority. We will provide the appropriate resources and ensure the necessary support, feedback and reward in support of that delegation.

Teamwork Within the context of clear individual accountability and authority, we value effective teamwork. Optimal solutions to complex issues often require the blending of individuals and groups with different skills and capabilities who can work effectively across the organization as well as within their area of accountability and authority. We are focused on optimization of the whole as well as its constituent parts.

Alignment of Interests We believe that optimal outcomes are achieved when interests are aligned. Specifically, interests are aligned when there is agreement on values, objectives, performance measurements and the basis of sharing risks and rewards. The result of alignment is that checks and balances are strengthened and the prospect of synergy and win-win outcomes are increased.

Innovation We will not be satisfied with the status quo or even current "best" practices, but will continually seek to find new and innovative ways to strengthen our competitive position and improve our performance. While we will not seek innovation for its own sake, we do expect to be on the leading edge of developing and introducing new ways of adapting to an ever-changing environment.

Respect We will treat people inside and outside our organization with the consideration and courtesy that we would expect to receive. This includes providing accurate, timely and comprehensible information to our stakeholders so that they can know what we are doing.

Chair, Board of Directors

Gail Cook-Bennett

Board of Directors and Investment Committee

Gail Cook-Bennett *(Chair)*

Mary C. Arnold

Germaine Gibara

Gilbert Gill

Jacob Levi

Helen M. Meyer

Dale G. Parker

M. Joseph Regan

Helen Sinclair

Ronald Smith

David Walker

Audit Committee

Mary C. Arnold *(Chair)*

Gilbert Gill

Jacob Levi

Helen M. Meyer

Ronald Smith

Human Resources and Compensation Committee

M. Joseph Regan *(Chair)*

Jacob Levi

Helen M. Meyer

Helen Sinclair

David Walker

Governance Committee

Dale G. Parker *(Chair)*

Gail Cook-Bennett

Germaine Gibara

Helen Sinclair

David Walker

Officers

John A. MacNaughton
President and Chief Executive Officer

John Butler
Vice President - General Counsel and Corporate Secretary

Ian M.C. Dale
Vice President - Communications and Stakeholder Relations

Jane Nyman
Vice President - Finance and Operations

Donald M. Raymond
Vice President - Public Market Investments

Valter Viola
Vice President - Research and Risk Management

Thomas A. Tutsch
Interim Head - Private Market Investments

OUR ADDRESS

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Ce rapport annuel est aussi disponible en français

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INVESTMENT
BOARD

2007 Annual Report | On Course

Corporate Profile

The Canada Pension Plan Investment Board is a Crown corporation created by an Act of Parliament in December 1997. Its long-term goal is to contribute to the financial strength of the Canada Pension Plan and help sustain the pensions of 16 million CPP contributors and beneficiaries by investing the Canada Pension Plan fund and maximizing returns without undue risk of loss.

The CPP Investment Board invests the CPP Fund, the funds not needed by the Canada Pension Plan (CPP) to pay current benefits. Contributions are expected to exceed annual benefits paid until 2022, providing a 15-year period before a portion of the investment income is needed to help pay pensions. The Chief Actuary of Canada has projected that the CPP Fund will grow to approximately $250 billion by 2016 and that the CPP, as constituted, is sustainable for 75 years and beyond. By increasing the long-term value of funds available to the CPP, the CPP Investment Board will help the plan to keep its pension promise to Canadians.

Our disclosure policy states: "Canadians have the right to know why, how and where we invest their Canada Pension Plan money, who makes the investment decisions, what assets are owned on their behalf and how the investments are performing."

In order to build a diversified portfolio of CPP assets the CPP Investment Board is currently investing cash flows in a diversified portfolio of public equity, private equity, inflation-sensitive assets (such as real estate and infrastructure) and fixed income. Approximately $64.6 billion dollars is invested in Canada through a broadly diversified portfolio, while the rest is invested globally so that income from foreign investments flows back to Canada to help pay future pensions.

With a mandate from the federal and provincial governments, the CPP Investment Board is accountable to Parliament and to the federal and provincial finance ministers who serve as the stewards of the CPP. Based in Toronto, the CPP Investment Board is governed and managed independently of the CPP and at arm's length from governments.

For more information on the CPP Investment Board, visit our website at www.cppib.ca.

Financial Highlights

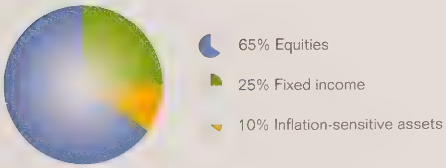
CPP FUND

FINANCIAL OVERVIEW FOR THE YEAR ENDED MARCH 31 ($ billions)		2007		2006
Assets	$	116.6	$	98.0
Net contributions		5.5		3.6
Investment income		13.1		13.1
INVESTMENT PERFORMANCE (%)				
Annual		12.9		15.5
Four-year annualized rate of return		13.6		9.8

ASSETS		($ billions)	(% of total)		($ billions)	(% of total)
Public equities	$	67.5	57.8%	$	57.3	58.5%
Private equities		8.1	7.0		4.4	4.5
Bonds		29.2	25.0		27.2	27.7
Real estate[1]		5.7	4.9		4.2	4.3
Inflation-linked bonds		3.8	3.3		4.0	4.0
Infrastructure		2.2	1.9		0.3	0.4
Money market securities		0.1	0.1		0.6	0.6
	$	116.6	100%	$	98.0	100%

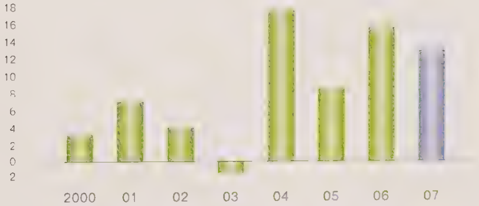
[1] Net of mortgage debt on real estate properties.

CPP FUND ASSET MIX
As at March 31, 2007



Fixed income assets include government bonds and money market securities. Equities include public equities (which are publicly-traded stocks) and private equities. Inflation-sensitive assets include real estate, inflation-linked bonds and infrastructure.

CPP FUND INVESTMENT RETURNS (%)
For the year ended March 31



FOUR-YEAR ANNUALIZED RETURN 13.6 PER CENT

Income earned on investments was 17.6 per cent in 2004, 8.5 per cent in 2005, 15.5 per cent in 2006 and 12.9 per cent in 2007, for an annualized return of 13.6 per cent over the past four years.

Chair's Report

This year the CPP Investment Board has delivered on its investment mandate by earning $13.1 billion in investment returns, reflecting a 12.9 per cent rate of return for the fiscal year ending March 31, 2007. The business plan for fiscal 2007, the first year of execution on a disciplined three- to five-year strategy, also advanced opportunities within clear risk tolerances that will provide a foundation for solid future growth.

As expected by management and the board of directors, implementing the strategy to grow the CPP Fund and diversify its assets required significant growth in the number of employees at the CPP Investment Board. Individuals with specialized expertise joined the organization to help manage the increasing size, complexity and sophistication of the investment program. Broad diversification in the private investments, real estate, infrastructure and public markets programs during the year was a strong indication that the CPP Investment Board's longer-term strategy is on course.

The organization's investment success would not be possible without its legislated independence, which allows the investment professionals to operate effectively in the competitive world of global financial markets. As mandated by the federal government and the participating provinces, whose finance ministers are the stewards of the CPP, management operates at arm's length from governments while being accountable to our independent board of qualified directors, who in turn are accountable to the stewards.

Refining Internal Accountability

Management's accountability to the board of directors is facilitated through various measures that are continuously being refined. The organization made advances on four fronts this year. We clarified how to measure the value that the organization adds, increased the alignment of compensation with performance, evolved new systems for overseeing risk, and further promoted the values and behaviours that reflect the organization's integrity-based culture.

ACCOUNTABILITY FRAMEWORK AND ADDED VALUE

A new accountability framework was implemented this year that enables the organization to measure easily and directly the value added to our total portfolio of assets above a passive benchmark. The benchmark is the CPP Reference Portfolio. The CPP Reference Portfolio is a simple model portfolio composed of four asset classes that, if invested, would have a reasonable likelihood over the long term of meeting the Chief Actuary's requirements for sustainability of the Canada Pension Plan. It would achieve that goal at a relatively low cost and with relatively low risk.

"The organization's investment success would not be possible without its legislated independence, which allows the investment professionals to operate effectively in the competitive world of global financial markets."

As well, it was designed to take into account the long-term pension liabilities of the Canada Pension Plan and to be consistent with the risk parameters and investment objectives outlined by the stewards. The CPP Reference Portfolio is a challenging benchmark against which management can be held accountable.

While employing it as a benchmark, the CPP Investment Board management team, supported by the board, has chosen to pursue a strategically different approach from the option of implementing the CPP Reference Portfolio, believing that it can outperform the passive model portfolio while operating within conservative risk tolerances. By adopting a broader set of investment strategies and entering a wider range of asset classes, its goal is to deliver added value beyond what the benchmark CPP Reference Portfolio would deliver. Although implementing this approach costs more, for each year in which the investment team succeeds in outperforming the CPP Reference Portfolio by one percentage point on assets of $116.6 billion – the size of the CPP Fund at year end – it would add $1.2 billion to the fund. A more complete description of the CPP Reference Portfolio can be found on page 15.

COMPENSATING MANAGEMENT FOR PERFORMANCE

Our board is committed to paying for the added value that the organization delivers. Tying compensation directly to value-added performance addresses not only our fiduciary duty to CPP participants but also management's goal to generate above-market returns. We seek to attract and retain high-calibre investment professionals with compensation that is market-competitive within Canadian financial services generally and within the investment management industry specifically. Doing so enables the organization to manage effectively the increasingly complex and globally-invested pool of capital in the CPP Fund.

With the CPP Reference Portfolio measurement system in place, the board's human resources and compensation committee, supported by a compensation consultant reporting directly to it, was able early in fiscal 2008 to approve key revisions to our compensation plans. These changes were designed to reflect our increasingly active investment management style and to recognize our increasing focus on global investments and the fiercely competitive market for proven talent with these skills. Both short- and long-term incentive opportunities have been

increased for selected investment professionals, as has the sensitivity of awards to performance for all plan participants. In transitioning to this newly weighted compensation system, the board has retained a compensation design that allows it to calculate the upper limit of the compensation payout in any year. In addition, significant compensation adjustments were approved for a small number of our most senior and mission-critical investment executives. These payments were designed to transition senior investment professionals closer to market compensation levels (levels reflected in the 2008 compensation structure), and to recognize excellent investment results in 2007. In the interests of disclosing the details of this plan we have introduced for the first time in our annual report a detailed Compensation Discussion and Analysis on page 43 to augment our usual discussion on compensation in the Governance Practices of the Board of Directors section.

OVERSEEING RISK

Investment and enterprise risk management were key areas of board oversight again in fiscal 2007. On the investment side, the board established a risk limit within which management was granted discretion to undertake value-added investment strategies and enter new asset classes. In terms of enterprise risk, the organization began rethinking its Enterprise Risk Management framework with the goal of more effectively managing foreseeable risks ranging from strategic risk to reputational risk. When it is complete, this system will ensure that we continue to have the controls in place to manage evolving risks within acceptable levels of tolerance. Finally, as our fiscal year came to a close, the repeal of Section 14 of our regulations removed constraints on management's use of derivatives, establishing a level playing field between us and other Canadian pension funds.

REINFORCING A CULTURE OF INTEGRITY

Integrity is essential to fulfilling our investment mandate, safeguarding our reputation and ensuring our ability to conduct business effectively over the long term.

We adhere to integrity requirements outlined in the *Canada Pension Plan Investment Board Act* but also respond to prescriptions that have emerged in public company securities protocols. Our board's ongoing emphasis is to strive for a values-driven environment that is more comprehensive than mere checklist compliance.

This year management articulated a written set of guiding principles that will help to instill our values further in daily business activities. The principles are hallmarks of how people at the CPP Investment Board have operated since its inception. Explicitly articulating them ensures that they are applied openly and consistently in daily decisions and behaviours.

To reinforce the expectations in our rapidly growing organization, senior management placed a high priority on code of conduct orientation sessions. Given that 107 new employees joined the organization this year, President and Chief Executive Officer David Denison made it his mission to inculcate a culture of integrity and reputation throughout the team by bringing to life the internal financial controls, conduct codes and compliance measures. He attended and spoke at every code of conduct orientation session for new employees to emphasize how ethics and corporate compliance are vital to him. As well, together we hosted special sessions for new employees introducing them to our external Conduct Review Advisor, the Honourable Frank Iacobucci, a former justice of the Supreme Court of Canada. Employees, directors and suppliers are able to speak confidentially to Mr. Iacobucci on questions relating to conduct or conflicts of interest.

Maintaining External Accountability

In fiscal 2007, the CPP Investment Board participated in an important form of accountability: biennial public meetings held across Canada. David Denison and I met with Canadians at public meetings in Halifax, Fredericton, Charlottetown, St. John's, Victoria, Calgary, Regina, Winnipeg and London to present information about how

our professionals invest the CPP Fund, how it is sustainable for the long term and to respond to their questions. These meetings afforded opportunities for some of the participants in the Canada Pension Plan as well as members of interest groups who closely follow the scope of our investment portfolio to interact with us.

Also this year, the stewards released the results of their triennial review of the Canada Pension Plan. The findings, published last June, concluded that the CPP was on a sound financial footing. The ministers reviewed the accountability and governance framework of the CPP Investment Board, including its code of conduct and its conflict of interest and disclosure policies and practices, and concluded that they meet or exceed practices of public and private sector pension funds. Those practices are detailed on page 78 of this annual report. Further, they reaffirmed our investment mandate and commended the CPP Investment Board for signing the United Nations' *Principles for Responsible Investment*, which provides a best-practice framework to help integrate consideration of environmental, social and governance factors into investor decision making.

Managing Board Evolution

Four original directors of the CPP Investment Board reached their term limits this past fiscal year. These individuals shared the challenges and rewards of laying the foundation for the organization beginning in 1997. Jack Levi, Helen Meyer, Joseph Regan, former chair of the human resources and compensation committee, and Mary Ritchie, former chair of the audit committee, shared a sensitivity to and appreciation of the importance and complexity of the board's task. Their judgment, along with that of their colleagues on the first board, was critical to the successful launch of the organization.

With the required turnover of half of the directors this past fiscal year and next, the board's focus has been on identifying new board members to continue providing effective oversight. The process involved a fundamental assessment of the board's requirements, clear definition of the necessary expertise and experience that new directors should possess, formal searches by two executive search firms, recommendations by an external nominating committee to the federal finance minister and decisions by the federal finance minister after consulting with his provincial counterparts. As a result of this rigorous process we are delighted to welcome Bob Astley, Ian Bourne, Geraldine Sinclair and Murray Wallace. More detailed disclosure on directors' backgrounds appears on page 73.

At a time of rapid director turnover, our goal is to integrate new directors quickly into the work of the board. We are managing that integration by providing a comprehensive board orientation program and separate committee orientations. We are also focusing our continuing education program for the near term on internal management presentations rather than external speakers.

The board of directors has the privilege of working with an excellent senior management team committed to adding value to the portfolio and doing so within a strong values-based culture. We recognize senior management and their staff for an excellent year. Under the outstanding leadership of David Denison, the organization has delivered approximately $2.4 billion in investment returns over and above our demanding benchmark. Our new accountability framework contributes significantly to the board's fiduciary oversight capability.

As Chair, I have the additional privilege of working with a dedicated group of directors with deep commitment to internal and external accountability.

GAIL COOK-BENNETT
Chair

Key Corporate Objectives for Fiscal 2007

OBJECTIVES	
CPP FUND DIVERSIFICATION	Continue to diversify the portfolio by asset class, risk/return characteristics and geography with a particular focus on increasing international investments
MEASUREMENT OF RISK AND VALUE-ADDED PERFORMANCE	Fully operationalize the total portfolio approach and create value-added returns above the CPP Reference Portfolio benchmark
ACTIVE INVESTMENT MANAGEMENT	Begin our internal active management program for public equities and expand our principal investing activities in private equities, infrastructure and real estate
TECHNOLOGY AND BUSINESS PROCESSES	Extend the implementation of the technology and business process architecture that was defined in fiscal 2006

We publish a statement in the annual report of our objectives for the past year and the extent to which they have been met. We also publish our objectives for the coming year and the foreseeable future. You will find the corporate objectives for fiscal 2008 on page 36.

HIGHLIGHTS

- Increased inflation-sensitive assets from 8.7 per cent of the portfolio to 10.1 per cent
- Added $1.5 billion in real estate assets, mainly in Continental Europe, the United Kingdom and the United States
- Completed two large infrastructure investments by acquiring interests in AWG Plc, parent of a U.K.-based water utility, and HQI Transelec Chile S.A., Chile's largest electricity transmission company
- Implemented a nominal bond management program
- Increased the proportion of international investments within the CPP Fund from 36.0 per cent to 44.6 per cent

- Established the CPP Reference Portfolio as a low-cost, low-complexity strategic alternative against which to measure value-added returns
- Measured value-added returns above the CPP Reference Portfolio benchmark
- Changed compensation weighting to more heavily reflect success or failure in delivering value-added performance
- Hired six new vice-presidents and nine new internal directors with specialized skills and management expertise to help fully implement the total portfolio approach
- Began to implement an investment risk budgeting framework as part of the total portfolio approach

- Initiated a Canadian active overlay stock selection program
- Enhanced the U.S. active overlay stock selection program with in-house fundamental research
- Invested in a pooled fund managed by Bridgewater Associates
- Launched Relationship Investments group to proactively engage with companies
- Co-sponsored principal investments including $228 million in Freescale Semiconductor, Inc., and a $330 million commitment to a joint venture in U.S. office properties
- Added 43 new investment professionals including five vice-presidents in key leadership roles in our investment teams

- Created a clear target state technology architecture
- Created an information systems strategy that we began to implement in a multi-staged program
- Appointed a vice-president in charge of Information Services

President's Message

While fiscal 2006 was a year of redefining our strategy at the CPP Investment Board, fiscal 2007 has been a year of solid implementation that has resulted in strong investment performance and an organization with new sources of expertise to manage the increasing complexity of the CPP Fund.

At the end of last year, we established four key objectives for fiscal 2007:

- Continue to diversify the portfolio by asset class, risk/return characteristics and geography;
- Fully operationalize the total portfolio approach and create value-added returns above the CPP Reference Portfolio benchmark;
- Begin our internal active management program for public equities and expand our principal investing activities in private equities, infrastructure and real estate; and
- Extend the implementation of the technology and business process architecture that was defined in fiscal 2006.

Looking back over this past year, I am pleased to report that we made significant progress in meeting each of these objectives, and in many cases achieved more than anticipated relative to the milestones identified in our strategy work.

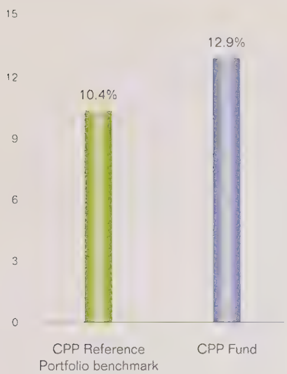
Measuring Value-Added Results

A key part of the accountability framework that we implemented in fiscal 2007 was the creation of the CPP Reference Portfolio as a low-cost, low-complexity strategic alternative against which to measure our value-added returns. As our Chair, Gail Cook-Bennett, explains in her report, this is not a policy portfolio, but rather a passive asset management alternative that would be expected to meet the 4.2 per cent real return assumption used by the Chief Actuary of Canada in his report on the Canada Pension Plan under reasonable capital markets performance expectations. As such, it also represents a relevant benchmark for the performance of the CPP Fund.

In measuring our results, the CPP Investment Board will focus on longer-term performance because our mandate is to help pay CPP pensions well into the future. We do not believe that performance over any one-year period is a primary indicator of success, but will instead emphasize four-year cumulative results. However, given that fiscal 2007 was the initial implementation year for the CPP Reference Portfolio, we will focus on one-year results this year and report on longer-term performance as we accumulate results over the next few years.

During the 12 months ended March 31, 2007, the CPP Fund grew by $18.6 billion to end the year at $116.6 billion. Within that growth, investment earnings were $13.1 billion, representing a 12.9 per cent rate of return.

2007 CPP FUND INVESTMENT PERFORMANCE



Our value-added target in 2007 was 35 basis points above the CPP Reference Portfolio, a target that reflected the current stage of evolution of our investment programs. We are pleased that we succeeded in delivering much more than that target: 245 basis points, or approximately $2.4 billion in additional returns compared to the CPP Reference Portfolio.

With the repeal of Section 14 of our regulations under the *Canada Pension Plan Investment Board Act* toward the end of fiscal 2007, all significant provisions that previously constrained the investment scope of the CPP Fund have now been removed. Section 14 was a start-up provision designed to limit our ability to use derivatives until such time as the organization built comprehensive risk management frameworks of the type that are now in place. The removal of this restriction enables us to manage the portfolio more cost efficiently and operate more effectively in our investment programs. The repeal also demonstrated both the rigour and effectiveness of our governance model, as all 10 stewards of the CPP – the federal finance minister and his provincial counterparts – agreed unanimously to our recommendation to repeal the provision.

Accountability: Performance against Objectives

Turning to our performance against objectives, during the course of this past year we have made a number of investments aligned with our first objective of greater diversification for the CPP Fund. As we noted in last year's report, as the CPP Fund grows in size, so does our need to pursue investment opportunities in all asset classes and markets around the world.

With respect to public and private equities, we increased their aggregate weighting in the CPP Fund from 63 per cent to 64.8 per cent during the year with most of this increase coming from global markets. We also added $1.5 billion in real estate assets, with the bulk of this growth coming from investments in Continental Europe and the United Kingdom. Of particular note was our $627 million acquisition of an 80 per cent interest in two City of London office buildings. In our growing infrastructure program, we invested $1.1 billion to acquire an interest in AWG Plc, a U.K.-based water and sewage company, as well as $364 million in HQI Transelec Chile S.A., the largest electricity transmission company in Chile.

We also laid solid foundations this past year with respect to our second objective of operationalizing our total portfolio approach. We continue to believe that this approach, which is described in greater detail later in this annual report, represents the most effective way for us to construct our portfolio, manage risk and return, and make investment decisions. We have now implemented a methodology to measure, monitor and manage investment risk while operating within a board-approved active risk limit relative to the CPP Reference Portfolio. We have also begun to implement an investment risk budgeting framework and will refine this over the course of fiscal 2008.

Our third objective was to expand the internal active management capabilities in each of our investment departments. During the course of the year, we added 43 investment professionals to our complement including five vice-presidents in key leadership roles within our investment teams. In our Public Market Investments department, we initiated three new investment programs – equity active overlay, global tactical asset allocation and relationship investments – all of which are described in the Management's Discussion and Analysis (MD&A) section of this report. In Private Investments and Real Estate Investments, we greatly expanded our principal transactions resources and completed a number of joint-venture, co-investment and co-sponsored transactions as a result.

While we will continue to add to our internal investment capabilities going forward, we also will expand and deepen our relationships with external partners. During fiscal 2007, we increased the number of our external relationships to 76; we provide a full listing of these relationships on page 53 and on our website. Fostering partnerships with leading investment management organizations around the world is a key part of our strategy, as it allows us to access the proven investment expertise and local market presence of those entities.

Our final objective was to expand the technology and business process architecture that we commenced in fiscal 2006. We have made progress in many areas as we transition from an almost fully outsourced environment to one where we control internally those technology and operational elements that are critical to the execution of our investment and risk management programs. We have now created a clear target state technology architecture along with an information systems strategy that we are implementing in a multi-staged program. While we made significant progress in this regard during fiscal 2007, this truly is a multi-year undertaking for us and so will continue to be a focus during fiscal 2008 and beyond.

Capability

In order to help manage the increasing complexity of the CPP Fund and to meet our objectives in 2007, we added 107 people across all parts of the organization during the year. These individuals were necessary to staff our increasingly broad investment programs, oversee rapidly evolving risk management systems along with their attendant technology requirements, handle our operational and reporting needs, and enhance our managerial depth as we lay the groundwork for an organization that can handle the multi-generational timeframe of our mandate.

Despite the steep trajectory of our internal growth, we are on track to assimilate the new members of our team and to anchor them in our organizational culture. We characterize that culture as one of high integrity that reflects the fiduciary responsibility we owe to the 16 million Canadians who participate in the CPP, as having an internal and external partnership orientation that promotes trust and confidence in our business dealings, and as exhibiting a commitment to high performance in all dimensions of our organization.

Looking Ahead to 2008

Our over-arching goal as an organization is to generate value-added performance for the CPP Fund relative to the CPP Reference Portfolio. In that respect, we have established a value-added performance target of 50 basis points for fiscal 2008. In addition to this performance goal, we have three other key objectives for the CPP Investment Board organization next year.

One of those objectives is to continue to broaden the diversification of the investment portfolio both by risk/return characteristics and by geography. As an example, in fiscal 2008 we will significantly expand our emerging markets investment activities in each of the public, private and real estate markets.

"This transparency of disclosure, our high-performance focus, and our accountability practices are all centred on our primary mission: to contribute to the long-term sustainability of the Canada Pension Plan."

Our second goal is to deepen our internal investment and support capabilities and processes. In this regard, we will add an additional 100 people to the organization. We will also open offices in London and Hong Kong within the next 12 to 15 months with people drawn from our existing teams in Canada and others hired from those local markets.

Our third objective is to continue to execute our multi-year plan to establish the management, technology and operational capabilities that will allow us to meet our long-term investment mandate.

As I look back on this past fiscal year, I would like to thank all of my colleagues within the CPP Investment Board, our board of directors and our strategic partners for their contributions to our success during fiscal 2007. While we have much to do in fiscal 2008 and beyond, we move forward confident that we have within the CPP Investment Board the talent and commitment essential for success.

One of the things we are most proud of at the CPP Investment Board is our level of disclosure, both here in this annual report and on our website. This year we are enhancing the ease of access to the annual report by including an interactive version on our website as well as a summary annual report for those seeking condensed reporting.

This transparency of disclosure, our high-performance focus and our accountability practices are all centred on our primary mission: to contribute to the long-term sustainability of the Canada Pension Plan. We look forward to reporting on our progress in the years to come.

D F Denison

DAVID F. DENISON
President and Chief Executive Officer

Senior Management Team

LEFT TO RIGHT

JOHN H. ILKIW, Senior Vice-President, Portfolio Design and Risk Management; **JOHN H. BUTLER**, Senior Vice-President, General Counsel and Corporate Secretary; **DAVID WEXLER**, Senior Vice-President, Human Resources; **DONALD M. RAYMOND**, Senior Vice-President, Public Market Investments; **DAVID F. DENISON**, President and Chief Executive Officer; **MYRA LIBENSON**, Chief Operations Officer; **GRAEME M. EADIE**, Senior Vice-President, Real Estate Investments; **IAN M.C. DALE**, Senior Vice-President, Communications and Stakeholder Relations; **MARK D. WISEMAN**, Senior Vice-President, Private Investments

Financial Review

This annual report contains forward looking statements reflecting management's objectives, outlook and expectations as of May 10, 2007. These statements involve risks and uncertainties. Therefore, our investment activities may vary from those outlined in these forward looking statements.

The following information provides analysis of the operations and financial position of the Canada Pension Plan Investment Board and should be read in conjunction with the Consolidated Financial Statements and accompanying notes for the year ending March 31, 2007. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Management's Discussion and Analysis

The first three sections of Management's Discussion and Analysis (MD&A) set out the connection between our legislated mandate to help sustain the future CPP benefits of generations of Canadians, the development and implementation of a relevant benchmark derived from the policy intent of the CPP reforms in 1997 and the mission of the CPP Investment Board to generate investment returns above this benchmark to help improve the long-term sustainability of the CPP.

Mandate

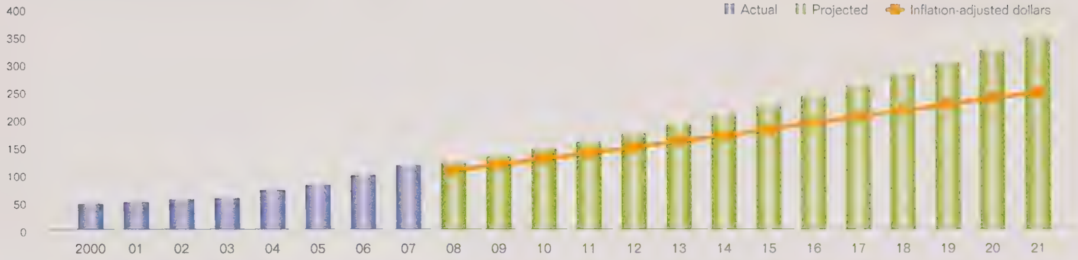
The Canada Pension Plan Investment Board is an investment management organization that was created in 1997 to invest the assets of the CPP that are not required to pay current benefits. The CPP Fund is now the largest single-purpose pool of capital in Canada and one of the largest and fastest-growing such pools in the world. In 2004, the CPP Investment Board also assumed responsibility for investing the short-term assets held to pay current CPP benefits (the Cash for Benefits portfolio) and, as such, became the liquidity provider of the CPP.

The CPP Investment Board operates independently of the Canada Pension Plan and at arm's length from governments. The governance system created under our legislated mandate was carefully designed so that the CPP Investment Board, established as a federal Crown corporation, can function as a professional investment manager in the private sector with strong public sector accountability.

The legislated mandate directs us to achieve "a maximum rate of return without undue risk of loss, having regard to the factors that may affect the funding of the Canada Pension Plan and the ability of the Canada Pension Plan to meet its financial obligations on any business day." We have interpreted this to mean that our mission is to generate the returns required to help keep the Canada Pension Plan sustainable over the long term.

In defining sustainability, the federal and provincial finance ministers who serve as the CPP stewards expressed a desire that the CPP be able to pay benefits at current levels, adjusted for inflation, with an employer-employee contribution rate of no more than 9.9 per cent. A 9.9 per cent contribution rate requires at least an annualized real return of 4.2 per cent over the 75-year projection period used in the *21st Actuarial Report on the Canada Pension Plan* that was prepared by the Chief Actuary of Canada.

PROJECTED ASSETS OF THE CPP FUND ($ billions)



The Chief Actuary of Canada has projected that CPP contributions will exceed annual benefits paid through 2021 providing 15 more years in which excess CPP contributions will be available for investment. At that point, assuming the Chief Actuary's projected investment returns are achieved, the CPP Fund – now $116.6 billion – is projected to be valued at $356 billion or $254 billion in inflation-adjusted dollars. Starting in 2022, the CPP is expected to begin using a portion of its investment earnings to supplement the contributions that provide the primary means of funding benefits. The Chief Actuary's projection suggests this draw will rise gradually to 2050, when it is expected to stabilize at approximately 30 per cent of annual investment income.

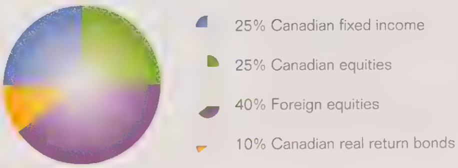
CPP Reference Portfolio

Within those broad parameters of sustainability, the mission of the CPP Investment Board is to earn value-added returns over the long term to help secure the future CPP benefits of generations of Canadians. To measure our investment management performance in relation to the long-term 4.2 per cent annual real return assumption, we developed the CPP Reference Portfolio in fiscal 2006 and implemented it in fiscal 2007.

The CPP Reference Portfolio is a potential strategic alternative for the CPP Investment Board. It acts as a low-cost, low-complexity model portfolio that embodies the investment objectives and implied level of risk envisioned by the CPP stewards during the CPP reforms in 1997. The objective in creating this hypothetical portfolio was to create a diversified, investable benchmark that is easily understood and reasonably expected to generate the long-term returns assumed in the Chief Actuary's 75-year CPP projection. Since it is an investable portfolio, the CPP Reference Portfolio represents a valid strategic option for the CPP Investment Board to fulfill its mandate. As such, it acts as a relevant benchmark by which to judge the performance of the CPP Fund as managed by the investment professionals of the CPP Investment Board.

The CPP Reference Portfolio is detailed in the chart below. The CPP Reference Portfolio was created for accountability and measurement purposes only; it is not a target portfolio for the actual CPP Fund.

CPP REFERENCE PORTFOLIO



The composition of the CPP Reference Portfolio recognizes the investment constraint imposed by the fund's legacy portfolio of non-marketable federal and provincial bonds, and the liquidity of the fund's exposure to Canadian equities which was maintained in part to comply with the foreign property rule. The foreign property rule was removed for all Canadian pension funds in June 2005.

"Our Risk/Return Accountability Framework is anchored in the belief that it is the risk/return characteristics of the total investment portfolio that contribute to the sustainability of the fund, and not the performance of any single asset class."

The 25 per cent Canadian equity allocation provides a relatively high expected real return and partially mitigates the risk of decreases in Canadian interest rates. Canadian equities have higher inverse correlation with Canadian interest rates than foreign equities. The measurement benchmark for this allocation is the S&P/Citigroup Broad Market Index Canada.

The 40 per cent foreign equity allocation provides for diversification outside the Canadian economy given that Canada's equity markets represent approximately 3 per cent of the world's stock market capitalization and are heavily concentrated in natural resources and financial services. The foreign equity allocation also provides a relatively high expected real return and partially mitigates the risk of lower-than-expected wage growth in Canada that would be mirrored in lower Canadian equity returns. When wage growth slows, so does growth in the contributions that primarily fund CPP benefits – placing more reliance on CPP investments to help fund payments to beneficiaries. As well, when foreign economies perform better than Canada, their better performing equity markets can be used to help pay CPP benefits. The measurement benchmark used for this allocation is the S&P/Citigroup Primary Market Index World excluding Canada.

The 25 per cent allocation to Canadian fixed income recognizes the inclusion in the CPP Fund of a portfolio of non-marketable federal, provincial and territorial bonds that was established before the creation of the CPP Investment Board. This allocation also mitigates deflation risk. Nominal bonds are expected to earn marginally higher returns than real return bonds because nominal bond returns include an inflation risk premium. We use the weighted average of the actual CPP bond return and the Scotia Capital All Government Bond Index as the measurement benchmark for this allocation.

The 10 per cent allocation to Canadian real return bonds mitigates the risks of unexpected inflation and decreases in real interest rates. It is measured through the use of the Barclays Capital Canada ILB Index. Some have asked why we did not construct a reference portfolio comprised entirely of real return bonds matched against the CPP's inflation-indexed liabilities. The answer is simply that real return bonds are unlikely to deliver a high enough return to meet the CPP Fund's long-term return assumption, nor do they protect against risks such as unanticipated demographic changes, lower wage growth and deflation.

The CPP Reference Portfolio is expected to remain unchanged until the end of fiscal 2008, when it will be reviewed in detail and possibly amended given additional insights into the linkages between capital market behaviour and the factors that affect CPP liabilities.

Investment Strategy

The aforementioned CPP Reference Portfolio is the cornerstone of the Risk/Return Accountability Framework that supports our investment strategy and provides a clear method to measure our success. While the CPP Reference Portfolio could meet the long-term funding needs of the CPP based on the reasonable capital market returns assumed in its design, the CPP Investment Board has made a strategic choice to strive to generate additional returns above those inherent in the CPP Reference Portfolio. Our investment strategy, therefore, is to add value above and beyond this strategic benchmark. Enhanced long-term returns improve the financial performance of the overall plan and thus contribute to the long-term sustainability of the CPP.

Our Risk/Return Accountability Framework is anchored in the belief that it is the risk/return characteristics of the total investment portfolio that contribute to the sustainability of the CPP Fund, and not the performance of any single asset class. This is discussed in more detail below.

Our investment strategy is grounded in two principal comparative advantages: investment horizon and size. We are patient long-term investors able to invest in illiquid assets and to capitalize on longer-term pricing anomalies. Our strategic planning outlook is longer than the industry norm, extending five to six years, with performance accountability based on rolling four-year averages.

The size of our portfolio enables us to create economies of scale that facilitate the low-cost, efficient harvesting of market returns ("beta") and the development of opportunities to capture above-market returns ("alpha"). Portfolio size and an unwavering commitment to fair dealing also make us an attractive strategic partner for top-tier investment managers, investment dealers and investee companies around the world. However, the portfolio's size also creates constraints. It can be impractical to pursue some investment opportunities that might be attractive but lack sufficient scale to make an appreciable contribution to our overall returns. As well, the Fund's significant investments in public equities can potentially affect markets through our trading activity. And, while sizeable monthly inflows from CPP contributions provide new money for investment, they also entail deployment costs.

ACCOUNTABILITY FRAMEWORK

The Risk/Return Accountability Framework includes the CPP Reference Portfolio, against which the board of directors sets risk parameters. The framework operates in two ways. First, it provides management with flexibility, within the defined parameters, to pursue value-added investment strategies. Secondly, it provides the board of directors with a precise tool to measure management's performance in generating value-added returns. The framework is detailed in the *Statement of Investment Objectives, Policies, Return Expectations and Risk Management* that is available on our website.

The CPP Investment Board began implementing this framework during fiscal 2007, with the board approving the passive CPP Reference Portfolio as a relevant benchmark, setting an active risk limit within which management has discretion to make decisions aimed at achieving returns above those available from the CPP Reference Portfolio, and delegating to management the authorities needed to manage the portfolio within the risk limit

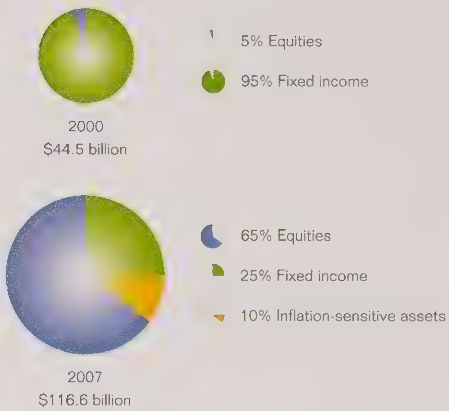
The active risk limit was established through the use of a 10-year historical analysis. It is to be reviewed annually and set at a level that permits flexibility without exposing fund assets to excessive risk or undue underperformance relative to the CPP Reference Portfolio.

Within that limit, management seeks to add value through active investment strategies that may include any combination of asset classes (including asset classes not found in the CPP Reference Portfolio) and alpha programs. To oversee the broad investment strategy, management formed the investment planning committee (IPC). The IPC consists of the president and chief executive officer, the chief operations officer, the senior vice-president in charge of Portfolio Design and Risk Management, and the senior vice-presidents in charge of Public Market Investments, Private Investments and Real Estate Investments. The committee establishes a risk approach for the entire portfolio and then allocates active risk among the various categories of investments in the actively managed portion of the portfolio. The investment departments review their investment activities and performance monthly with the IPC, and management reports to the board of directors at least quarterly.

TOTAL PORTFOLIO APPROACH

We focus on the efficiency of the total portfolio, not the performance of isolated asset classes or individual investment departments. We strive to make the total portfolio as efficient as possible by considering proposed investments in terms of their marginal risk and return contribution. Under this approach, we do not target specific dollar allocations for individual asset classes. Instead we allocate risk to investment strategies. Private equity, for example, is considered a security selection strategy within the equity asset class, and not an asset class in and of itself. Similarly, infrastructure investments include a broad range of assets with very different risk/return characteristics. Established assets with low earnings volatility, such as water distribution networks and toll roads, are relatively low risk compared to the higher-risk equity-like returns associated with developing and building new infrastructure.

TOTAL PORTFOLIO VIEW



Categorizing investments by risk/return attributes, rather than traditional labels, offers a better understanding of the expected contribution of each investment to the portfolio, and permits more accurate assessment of actual outcomes.

Use of the total portfolio approach presents a substantial organizational challenge, as it requires near seamless integration of the Portfolio Design and Risk Management (PDRM) team, the three investment departments and our Finance and Operations area. Within this integration, investment department heads make the actual deployment decisions while PDRM calculates how those transactions contribute to the overall risk/return characteristics of the portfolio. The important role of Finance and Operations is to operationalize the concept by providing the robust reporting, performance measurement and attribution capabilities that enable management and the board of directors to monitor fund performance.

INVESTMENT STRATEGIES

As discussed previously, a passive benchmark – the CPP Reference Portfolio – provides a baseline from which we diverge in seeking value-added returns within an active risk limit set by the board of directors.

The range of investment strategies used in managing the CPP Fund has evolved over time. The federal and provincial finance ministers who reformed the Canada Pension Plan in 1997 envisaged the creation of a diversified portfolio to grow beyond the legacy portfolio of non-marketable federal, provincial and territorial government bonds already in place. When the CPP Investment Board began its investment program in 1999, cash flows were initially invested in public equities. This portion of the fund now holds shares of some 2,600 public companies, including 700 in Canada, largely as a result of replicating the composition of major stock markets.

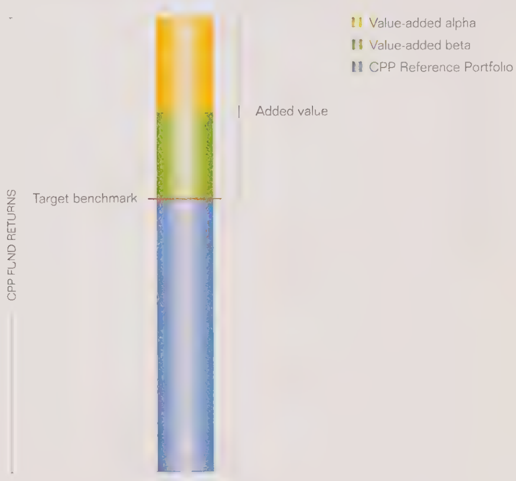
In recent years, management has elected to pursue value-added returns by expanding the range of investment programs to include private equity, real estate and infrastructure, achieving greater global diversification and implementing a variety of active investment strategies. We have done this in the belief that:

- New investment ideas can still be discovered and exploited, but to do so requires skill;
- Early movers into new investment areas accept higher risk, have the opportunity to reap higher rewards and in limited-access markets can maintain their early mover advantage;
- Alpha, or above-market, returns are extremely valuable because they do not add materially to the overall systematic risk of the portfolio;
- Alpha becomes more difficult to capture as more participants enter an investment area; and
- Private equity assets are highly correlated to comparable passive public market assets, but offer greater returns over time.

The CPP Investment Board's value-added commitment aims to efficiently surpass the return generated by the CPP Reference Portfolio in two ways.

The first is what we call "better beta", a strategy to access more sources of beta than are inherent in the CPP Reference Portfolio. Beta is the return one can obtain by investing in a given asset class on a broadly diversified basis. This return and its associated level of risk generally reflect market performance, not manager skill. The CPP Reference Portfolio reflects the returns and risk of investing in conventional public equity markets, inflation-linked bonds and the legacy portfolio of non-marketable government bonds. We seek to generate better beta while taking acceptable risks by expanding into a wider range of asset classes.

ALPHA AND BETA VALUE-ADDED RETURNS



Our second approach is to selectively capture above-market returns, known as alpha. These returns are generated by manager skill, not broad market exposure, and are particularly valuable since they do not add materially to systematic risk. In other words, they tend not to be influenced by whether broad market returns are positive or negative. The pursuit of alpha is strategy-based. For example, in public markets, much of our alpha generation in the initial stages of our value-added investment program has been attributable to the external partners who manage a variety of mandates on our behalf as well as the active overlay program discussed later in this report. Increasingly, we intend to generate public market alpha returns on our own as we develop internal capabilities that complement the ongoing work done by our expanding list of external partners.

Cost minimization is also a priority in our value-added performance, as every dollar saved in transaction costs is equivalent to one dollar of additional income, or alpha, with no increase in risk. For instance, this year the Public Market Investments unit integrated transaction cost measurement and minimization modelling into its portfolio management processes. This will deliver significant cost savings as our trading volumes increase over time.

REPEAL OF SECTION 14

This year the federal and provincial finance ministers agreed to repeal Section 14 of our regulations under the *Canada Pension Plan Investment Board Act*. This change, effective February 1, 2007, removed constraints on our use of derivatives and followed the removal last year of Section 9, which affected our ability to invest in marketable bonds. We are now on the same footing as other Canadian pension funds and therefore can manage the investment portfolio more flexibly while incorporating international best practices. Using derivatives significantly improves the ability of the CPP Investment Board to mitigate risk, reduce costs and increase expected returns.

In using derivatives to help achieve our mandate, it is important to note that the CPP Investment Board has adopted a best practices approach to risk management. This involves the board and management agreeing on the appropriate amount of risk that management may use to earn additional returns for the fund through the selective use of active management strategies, including the use of derivatives. This risk-based framework includes market and credit risk limits, against which actual limits are measured every day. As well, we have created a trading oversight manager within our capital markets area to monitor trading activity in real time. Perhaps most importantly, there is a clear separation of duties between the trade execution and settlement functions. Confirmations are sent directly to the settlement group, which must also approve all cash movements. This prevents an individual trader from taking on a large position that would not be captured by the risk measurement systems.

Further discussion on the use of derivatives is contained in the section on Public Market Investments. Note 2e to the Consolidated Financial Statements provides more information on our use of derivatives.

Results

This section reports on the performance of the CPP Fund, the assets within the Canada Pension Plan not needed to pay current CPP benefits.[1] We later report on the short-term Cash for Benefits portfolio, managed by the CPP Investment Board, that is used by the CPP to pay current benefits. See page 36 for more details.

ASSET GROWTH

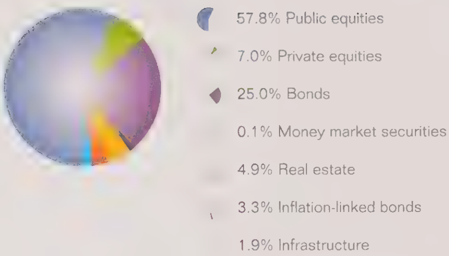
At March 31, the CPP Fund totalled $116.6 billion versus $98.0 billion at March 31, 2006. This growth consisted of $13.1 billion from investment income and $5.5 billion from CPP contributions not required to pay current benefits. The fund has grown by $71.9 billion since fiscal 1999, when we began our investing operations. This cumulative growth consisted of $48.1 billion from investment income and $23.8 billion from excess CPP contributions.

CPP FUND ($ billions)
As at March 31

ASSET MIX

During the past year, we worked to gradually transition the actual portfolio to meet our goal of full comparability to the CPP Reference Portfolio by year end. The historical weightings of assets within the actual portfolio were influenced by factors such as the foreign property rule and legacy CPP bonds.

ASSET MIX
As at March 31, 2007



At March 31, equities totalled $75.6 billion or 64.8 per cent of the portfolio. This consisted of publicly-traded stocks valued at $67.5 billion or 57.8 per cent of the total portfolio plus private equity valued at $8.1 billion or 7.0 per cent of the total. Canadian public equities accounted for $28.5 billion, or 24.4 per cent of the CPP Fund.

We continued to increase the CPP Fund's global exposure measured in both absolute dollars and as a portfolio percentage. Increased global diversification offers better management of the risks inherent in Canada's relatively small, highly concentrated stock market. It enables us to cushion the potential risk that a downturn in the Canadian economy could reduce the flow of CPP contributions and thus increase reliance on investment income. It also allows for income from global investments to flow back to Canada to help fund future pensions. Despite this increase in global investments, the CPP Fund continues to maintain a substantial commitment to the domestic economy with total Canadian assets amounting to $64.6 billion, or 55.4 per cent of the portfolio.

[1] The CPP Fund includes the non-marketable government bonds that predate the creation of the CPP Investment Board. We take these bonds into account when making investment decisions. The following commentary reflects this, but the Consolidated Financial Statements that form the latter half of this annual report deal exclusively with the CPP assets managed directly by the CPP Investment Board. Finance Canada has been moving the legacy bonds to the CPP Investment Board in a series of monthly transfers that ended on April 1, 2007, which is the start of our 2008 fiscal year.

Fixed income totalled $29.3 billion or 25.1 per cent. This was comprised primarily of non-marketable legacy government bonds and money market securities, but also included a $4.3 billion marketable nominal bond portfolio that was created during the year. The non-marketable bonds are carried at calculated market value and their total value at March 31 was $24.9 billion. The geographic and maturity distributions are shown on the CPP Investment Board website. Each issuing jurisdiction can elect to replace a maturing bond with redeemable debt ranging in term from five to 30 years. Replacement debt with a term of less than 30 years can be renewed for successive terms to the maximum of 30 years. If this provision is fully exercised, the last legacy bond will mature in 2043.

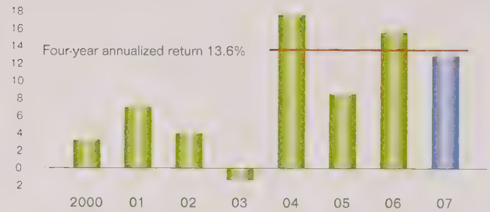
Maturity proceeds of each jurisdiction's final bond will become part of the CPP Fund and be available for investment.

Inflation-sensitive assets represented $11.7 billion or 10.1 per cent. These were comprised of real estate valued at $5.7 billion or 4.9 per cent of the total portfolio, inflation-linked bonds valued at $3.8 billion or 3.3 per cent of the fund and infrastructure investments valued at $2.2 billion or 1.9 per cent of the total portfolio. These types of assets are important because they tend to track inflation over time and are a potential source of value-added returns above those of the CPP Reference Portfolio. In last year's annual report, this category was referred to as "real return" assets but is now more accurately labelled "inflation-sensitive" assets.

CPP FUND PERFORMANCE

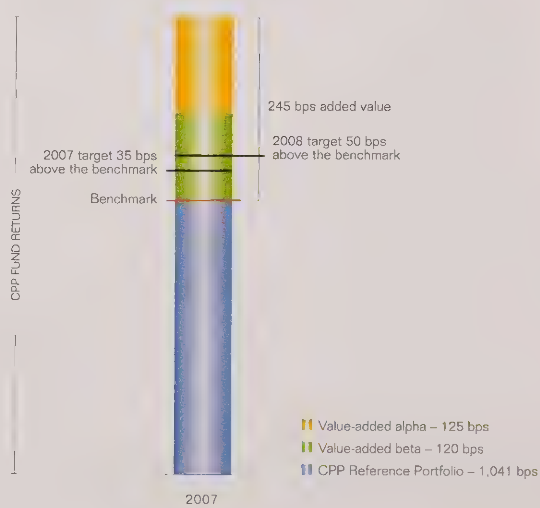
The CPP Fund generated income of $13.1 billion in fiscal 2007 compared with $13.1 billion for fiscal 2006. The rate of return for this year was 12.9 per cent versus 15.5 per cent last year. Over the past four years, the annualized rate of return has been 13.6 per cent.

RATE OF RETURN (%)
For the year ended March 31



A key factor in the CPP Fund's results this year was strong equity markets in the first nine months of our fiscal year, followed by a degree of volatility in the first three months of calendar 2007, including a sharp downturn in equity markets in February. Our value-added performance target for fiscal 2007 was set at 35 basis points[(a)] over the CPP Reference Portfolio return, taking into account the stage of development of our active investment capabilities. Actual performance for fiscal 2007 exceeded the CPP Reference Portfolio by 245 basis points. As shown in the accompanying chart, the more efficient generation of beta produced 120 basis points of added value and alpha generation activities produced 125 basis points. On an annualized basis, this represents approximately $2.4 billion of added value relative to what the CPP Reference Portfolio would have contributed to the CPP Fund.

CPP FUND VALUE-ADDED RETURNS



[(a)] A basis point is 1/100th of 1 per cent. 35 basis points equal 0.35 per cent.

The greatest source of beta contributing to our performance in 2007 was our expansion into a wider range of asset classes including infrastructure and real estate – categories that are not part of the CPP Reference Portfolio. The alpha-generating activities that helped to deliver value derived from multiple active management decisions, including our active overlay program in Public Market Investments and investment decisions within our private equity and real estate areas.

CPP FUND PERFORMANCE

ASSET CLASS	Return Fiscal 07	Return Fiscal 06
Canadian public equities	12.4%	29.9%
Canadian private equities	45.3%	-4.5%
Foreign public equities	13.5%	14.0%
Foreign private equities	33.1%	22.4%
Fixed income	5.9%	4.3%
Real estate	31.4%	19.7%
Inflation-linked bonds	0.9%	5.4%
Infrastructure	18.4%	-2.1%

The chart above shows the value of diversifying the portfolio as a risk management strategy. While from year to year there may be volatility in individual asset classes, collectively the full range of asset classes in a diversified portfolio performs better over the long term. At the same time diversification reduces the degree of fluctuation of total portfolio returns over the long term.

We have established a value-added performance target of 50 basis points above the CPP Reference Portfolio return for fiscal 2008. Our goal is to measure over time our value-added performance, which will in turn determine some elements of management compensation.

Investment Group Activities

We now review the activities of our three investment departments: Public Market Investments, Private Investments and Real Estate Investments.

PUBLIC MARKET INVESTMENTS

To meet the challenges posed by the rapid growth and increasing complexity of the CPP Fund, the Public Market Investments department doubled its staff this year as it implemented new active strategies and recruited a vice-president to oversee the newly created Relationship Investments group.

The Public Market Investments department invests in all publicly-traded asset classes, not just equities. This unit continued to broaden its scope and deepen its capabilities as it reorganized into the following five groups early in the 2007 fiscal year.

Capital Markets: This team is responsible for trading, liquidity and index management across all products and asset classes. This includes investing cash flows from CPP contributions as well as rebalancing the overall risk profile of the total portfolio. Derivatives are used to manage market exposure and liquidity by replicating underlying cash positions and to add value to the portfolio through activities such as synthetic securities lending. This past year the group established a portfolio of marketable Canadian government bonds valued at approximately $4.3 billion on March 31, 2007. It also integrated into our investment processes a transaction cost modelling system aimed at reducing costs as trading volumes increase. And it implemented a system critical to balancing our private and public equity holdings as part of the total portfolio approach.

Plans for fiscal 2008 include the introduction of emerging markets trading and expansion into a wide array of new instruments such as bond futures and variance swaps, a derivative contract whose value fluctuates with the volatility of the markets.

"To meet the challenges posed by the rapid growth and increasing complexity of the CPP Fund, the Public Market Investments department doubled its staff this year as it implemented new active strategies and recruited a vice-president to oversee the newly created Relationship Investments group."

External Portfolio Management: This team selects and manages our relationships with external managers who generate active returns through a variety of mandates. At year end this group was in the process of negotiating our first emerging markets mandate. As we have done in entering other markets, we plan to move at a measured pace, initially investing through external managers that offer immediate access to expertise and diversification.

Earlier in the year, we committed a total of $445 million to two new active Global REIT mandates managed by ING Clarion Real Estate Securities and CBRE Global Real Estate Securities. The team also established a currency overlay mandate with First Quadrant, which incorporates proprietary models to forecast exchange rate movements and uses currency forwards to implement its views.

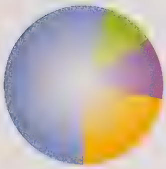
External Portfolio Management also oversees the active overlay program that was launched in fiscal 2005 as our first effort to generate returns over and above passive portfolio returns. Four external investment managers – Barclays Global Investors Canada, Connor, Clark & Lunn Investment Management, Goldman Sachs Asset Management and UBS Global Asset Management – pursue active management strategies by selling securities from our passive portfolio that they expect to underperform and investing the proceeds in securities from which they expect superior returns. Their compensation is primarily performance-based. Collectively, they have delivered $117 million, net of fees, since inception of the program.

Large pension funds are increasingly investing in hedge funds in an attempt to add alpha returns. We do not have a specific hedge fund allocation, but this year transferred a total of approximately $262 million to a pooled fund managed by Bridgewater Associates. Bridgewater had previously managed an active inflation-linked bond mandate for us. The move to a pooled fund provides a broader array of strategies to further diversify our active risk. Fiscal 2008 plans include allocating active risk to a select number of funds of hedge funds.

Global Corporate Securities: This group functions much like the four external managers in the active overlay program with a focus on adding value through bottom-up security selection strategies of stocks and corporate bonds. The approach is complementary in that the Global Corporate Securities team focuses on a longer investment horizon than the external managers. The team has combined the best of quantitative and fundamental portfolio management disciplines and established a U.S. equity strategy at the start of fiscal 2007. A Canadian equity strategy was added later in the fiscal year. Fiscal 2008 plans include expansion to European and Asian stocks as well as building the infrastructure for investing in corporate bonds.

Global Tactical Asset Allocation: This group employs top-down forecasting models to predict returns of various asset classes such as relative country returns in stock markets, bond markets and currencies. Similar to the Global Corporate Securities group, the Global Tactical

GLOBAL DIVERSIFICATION



Asset Allocation strategies are designed to complement those of our external partners by focusing on a longer time horizon. Their first initiative, an active currency program, will begin early in fiscal 2008 and will use currency forward contracts to implement the strategy. Fiscal 2008 plans also include the implementation of a stock-bond-cash timing program often referred to as a tactical asset allocation strategy.

Relationship Investments: This newly created group is responsible for all forms of proactive engagement with public companies. Their activities include proxy voting, implementation of the CPP Investment Board's *Policy on Responsible Investing (PRI)*, as well as capital deployment to generate value-added returns. Capital deployment strategies include applying private equity approaches to public companies.

Our investment horizon and long-term orientation allow a strategic investor like us to give management and boards the shareholder stability required to make business investments needed to create value over the longer term. This long-term focus is becoming more important as the stock market becomes increasingly focused on short-term results that are often delivered without regard for true long-term value creation.

As an example, the Relationship Investments group might seek to generate added value by negotiating the direct purchase, at a discounted price, of a sizeable block of shares in a company that needs cash quickly to relieve liquidity pressure. Or, it might work with other investors to bring about governance changes deemed necessary to revive an underperforming enterprise. We plan to enter the field first through external partners, then co-investments and finally direct investments. We currently participate in one fund, Enterprise Capital Fund LP II, a catalyst investor that acquires as much as 10 per cent of a company with the intention of bringing about change.

POLICY ON RESPONSIBLE INVESTING

Our *Policy on Responsible Investing* was first published in October 2005, and replaced our earlier *Social Investing Policy*. The policy is designed solely within an investment framework and is overseen by the Public Market Investments department. The policy reflects our belief that responsible corporate behaviour with respect to environmental, social and governance factors – commonly referred to as ESG factors – can generally have a positive influence on long-term corporate financial performance.

Our goal is to encourage improved disclosure and performance with respect to ESG matters that enhance long-term financial performance and allow investors to better understand risks and opportunities associated with an investment.

The policy has three core elements:

1. Engagement with companies in our portfolio through proxy voting, coalitions of like-minded investors and direct communications with managements and boards;
2. Research into the long-term materiality of ESG factors; and
3. Integrating ESG factors into our investment processes.

Engagement

We define engagement as any direct contact or communication with a company, such as proxy voting, letters or meetings with management or members of the board.

Since the publication of our policy in October 2005, we have been developing an engagement capability that will allow us to use our ownership position in

2,600 publicly-traded companies to encourage improved disclosure and performance on ESG factors. Engagement is a proven strategy for large institutional investors, like the CPP Investment Board, with a long-term investment horizon.

This year we reviewed our public equity portfolio holdings to identify risks from an ESG perspective. We prioritized issues and identified firms for direct engagement based primarily on their potential impact on our portfolio, as well as research from various sources including independent research providers. We then established three key focus areas for our engagement activities – *extractive industries*, *climate change* and *executive compensation*.

We are focusing on engagement with companies in the extractive industries due to their prevalence in the Canadian economy and therefore our investment portfolio. Companies in these industries typically deal with a wide range of environmental and social factors that can, if addressed well or poorly, translate into more or less favourable prospects for long-term financial performance. Through our initial discussions with mining and oil and gas companies this year, we have sought improved transparency and performance on greenhouse gas (GHG) emissions and local community impact.

Our second focus area for engagement, climate change, stems from our view that potential physical impacts as well as new or increased regulations on GHG emissions could have impacts on many sectors of our portfolio. Our efforts are directed at encouraging companies to disclose the climate change–related elements of their business clearly and consistently so that investors can better analyze risk and opportunity.

With regard to executive compensation, we believe in a pay-for-performance approach, with two qualifications. The first is that pay be correlated with both superior performance and underperformance. The second is that companies provide full disclosure of the true economic value of the entire executive compensation and benefits packages. Our *Proxy Voting Principles and Guidelines* provide further details on our positions regarding executive compensation.

Examples of Collaborative Engagement

We believe that when an investor or group of investors with a sizeable ownership portfolio speaks out, corporations take note and can be encouraged to take action.

- As one example, the CPP Investment Board is a sponsor and signatory to the Carbon Disclosure Project (CDP), a coalition of 284 investors globally, managing more than $41 trillion in assets and designed to encourage companies around the world to disclose the implications of climate change to their business. We supported the first CDP Canada report released in October 2006 and intend to fund the CDP research project again in fiscal 2008.
- We also work with like-minded investors to advance the framework for responsible investment within a fiduciary context. In April 2006, we became signatories to the *Principles for Responsible Investment*, an initiative of the United Nations Environmental Program Finance Initiative and United Nations Global Compact.
- In March 2007, we announced our support for the Extractive Industries Transparency Initiative (EITI). A multi-stakeholder initiative, the EITI supports improved governance in resource-rich emerging market countries through the verification and full publication of company payments and government revenues from oil, gas and mining.

Direct Engagement

While our direct engagement initiative is relatively new, we have already directly engaged with companies in a number of industries including mining, tobacco and energy.

- Our direct engagement on ESG issues has been mostly with Canadian firms, where on average we own 2 to 3 per cent of shares outstanding.

- Once we have identified a firm and issue, we review the firm's financial and ESG performance and develop objectives for our engagement. We generally seek improved transparency on relevant ESG factors and assurance that the company is adequately managing relevant ESG issues in the short and longer term as part of a typical business and financial review.
- We generally do not publicly disclose the names of the companies with whom we are engaging although we reserve the option if companies prove to be unresponsive. We view engagement as an ongoing long-term process.

Proxy voting is another effective form of direct engagement. We voted on 12,393 agenda items at 2,366 meetings during the 12-month proxy year that ended June 30, 2006. Information about how we voted and our *Proxy Voting Principles and Guidelines* are available on our website.

Research

In addition to engagement, we support research into the long-term financial materiality of ESG factors. In March 2006, we were the first Canadian investment organization to join the Enhanced Analytics Initiative (EAI). This is an international collaboration of investors representing over $2 trillion in assets aimed at encouraging brokerage firms to produce better investment research into ESG factors.

We are augmenting the work of the EAI and others in the investment research community, such as the Canadian Coalition for Good Governance, with work being conducted internally as we seek greater insight into ESG issues and potential investment risks or opportunities.

PRI and Our Investment Strategies

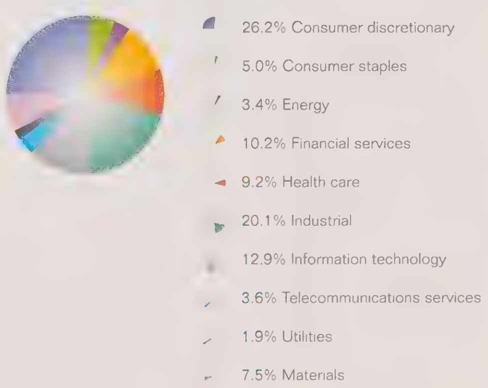
We are working towards building ESG factors directly into our investment strategies by integrating ESG factors that represent material elements of corporate performance, risk and opportunity. While we have initiated this work in fiscal 2007, it is a multi-year undertaking and we will report progress in this area in the years ahead.

PRIVATE INVESTMENTS

To support the implementation of more sophisticated investment strategies and transactions, the Private Investments department significantly increased its staff, recruited two experienced vice-presidents and substantially increased its investment activities this past year. Meanwhile, the global market for private equity and infrastructure changed dramatically with enormous infusions of capital bidding up prices and driving down returns, making it increasingly difficult to find attractive investments.

In private equity, our strategy is to establish relationships with top-tier investment partners through investment in a select number of private equity funds around the world. When possible, we also invest alongside these external partners, often co-sponsoring transactions as a direct investor in private companies. In infrastructure, we favour direct investing over funds because we hold a strong comparative advantage due to our size and long investment horizon.

PRIVATE EQUITY INVESTMENTS BY SECTOR



Funds and Secondaries: This is the first and largest segment of our private investments activities – the cornerstone of our private investments program. The private equity fund portfolio now consists of investments with a combined carrying value of $7.1 billion in 96 funds with 57 managers and is diversified across a wide range of industries, primarily in North America and Western Europe. We consider 39 of these managers to be core to our ongoing strategy. In addition to this invested capital, we have additional unfunded commitments to our fund managers of $11.7 billion in aggregate. The past year saw new commitments of $7.0 billion to 21 funds, including the establishment of eight new fund manager relationships: Actera Group, First Reserve, Goldman Sachs Vintage, KSL Capital Partners, Lightyear Capital, Permira, Providence Equity Partners and Thomas H. Lee Partners. As well, we reinvested in funds managed by Apax Partners, Brookfield Asset Management, Clairvest Group, Coller Capital, CVC Capital Partners, Hellman & Friedman, Kohlberg Kravis Roberts & Co., Lindsay, Goldberg & Bessemer, Partners Group, Silver Lake Partners, Terra Firma Capital Partners, Texas Pacific Group and The Blackstone Group.

Among our new commitments in Canada in fiscal 2007 was $300 million to Brookfield Asset Management's Tricap Partners II, which invests in underperforming companies requiring financial restructuring, strategic redirection, management changes or operational improvement. That investment builds on our earlier investment in the first Tricap Partners fund. Also in Canada we continued to operate under the three-year program that we established in fiscal 2006 to invest $400 million in Canadian private equity and venture capital. Through a "fund of funds" that TD Capital Private Equity Investors manages, the program invests in Canadian mid-market buyout funds and Canadian venture capital funds. As well, our fiscal 2006 commitment of $85 million to Birch Hill Equity Partners III, a Toronto-based private equity fund, continues to be drawn down as part of a five-year commitment. The $850 million fund focuses on mid-market buyout and expansion capital opportunities, primarily in Canada in selected industries including manufacturing, software, outsourced services, health care, energy and entertainment, media and communications. Further, our $100 million commitment to Edgestone Capital Equity Fund III in fiscal 2006 continued to be drawn down as part of a six-year program. The fund makes investments in equity and equity-related securities of mid-market North American companies primarily in three sectors: services, industrials/manufacturing and retail.

Funds and Secondaries is expanding beyond established geographic markets. As an example, the team launched a new venture with the Ontario Teachers' Pension Plan late in fiscal 2007 to fund Actera Partners, Turkey's largest independent private equity firm. CPP Investment Board's $115.3 million commitment was not a large amount for us, but does represent a major stake in the fund. Led by two managers with both Turkish and international experience, Actera's investment strategy focuses primarily on buyout and growth equity investments across a broad range of industries.

Fiscal 2008 plans for this segment include substantial expansion of our private equity fund relationships into Asia, a focus on the further development of opportunities in the mid-market and the further development of exposure to funds that take advantage of distressed opportunities.

Principal Investing: This team invests directly in private companies, alongside our external private equity fund partners. This year the team invested a total of $671 million. The list of companies includes:

- Freescale Semiconductor, Inc., a spin-off from Motorola in 2004 and now a leading semiconductor developer and manufacturer ranking among the top 20 in worldwide sales. Freescale's global operations are based in Austin, Texas.
- Generac Power Systems, Inc., a leading producer of commercial and consumer power generation systems. Generac is based in Waukesha, Wisconsin.
- Continental Group, a global value-added manufacturer and distributor of bar and tubular products for the oilfield service industry. Continental is based in Houston, Texas.
- AWAS, one of the world's largest aircraft leasing companies with 72 customers in 45 countries. Headquartered in Dublin, AWAS has three offices in the United States as well as offices in London, Singapore and Sydney, Australia.
- VNU Group B.V., now known as the Nielsen Company, is one of the world's largest media and information companies with leading market positions in marketing and media information, business information and directories. It is headquartered in both Haarlem, the Netherlands and New York City.
- BondDesk Group, a leading fixed income electronic trading platform, and one of the largest market destinations for trading odd-lot fixed income in the United States. BondDesk is headquartered in Mill Valley, California.
- NXP, a semiconductor company providing semiconductors and software for mobile communications, consumer electronics, security applications, contactless payment and connectivity, and in-car entertainment and networking. NXP is headquartered in Eindhoven, the Netherlands.
- Univision Communications Inc., based in Los Angeles, is the leading Spanish-language media company in the United States. Their portfolio includes television, radio, music and Internet offerings.

In total, we now have 16 principal investments valued at $1 billion.

Infrastructure: The infrastructure team completed two significant infrastructure transactions this year, including its largest to date: the $1.1 billion purchase of a one-third interest in AWG Plc, the parent of Anglian Water, which operates a water distribution network that serves six million customers in Britain. Earlier in the year, we purchased, for $364 million, a 27 per cent ownership position in HQI Transelec Chile S.A. The Transelec power system provides approximately 99 per cent of Chile's population with electricity using over 8,000 kilometres of transmission lines and 51 power substations.

The CPP Fund now has three significant direct infrastructure investments: AWG, Transelec and a 17 per cent ownership interest acquired in 2005 in Wales & West Gas Distribution Network, the natural gas distribution system that serves Wales and southwest England.

We intend to substantially expand our infrastructure portfolio in coming years. We are well equipped to meet this sector's need for large, long-term capital commitments. And, the regulated long-term income streams that are available from infrastructure investments tend to track inflation and therefore are a good match for the CPP's future liabilities.

We plan to further develop this team's capabilities with the goal of being able to complete four to six large-scale transactions a year by the end of this decade. We continue to seek assets that operate in strong regulatory environments and have relatively low technology replacement risk and minimal substitution risk. Examples include utilities such as electricity transmission and distribution systems, gas transmission and distribution systems, water and sewage companies, and certain transportation assets such as toll roads, bridges and tunnels, airports and ports. Our current target investment size for infrastructure investments is $300 million to $600 million, although, given the right opportunity, we will make larger investments in a single infrastructure asset. The current $300 million threshold effectively rules out social infrastructure projects such as hospitals and schools. While foreign projects comprise our direct infrastructure investments thus far, we are prepared to invest in Canadian infrastructure that meet our criteria and compare well with investment opportunities globally. At present, Canada's infrastructure market is more limited than those of other countries.

REAL ESTATE INVESTMENTS

In order to help grow this portion of the CPP Fund, the Real Estate Investments department continued to expand its internal capabilities following its formation in fiscal 2006. This past year it doubled in size and is now organized along geographic lines with one team focusing on North America and another internationally outside of North America. A new vice-president was recruited from Germany to oversee European real estate investments.

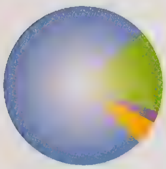
The CPP Investment Board has thus far invested a total of $5.7 billion in real estate, net of debt, including real estate investment trusts (REITs) that are held in our public real estate portfolio.

Total net investments increased by approximately $1.5 billion, primarily comprised of valuation adjustments and additions in both private and public investments. Net new investments were partially offset by the sale of our interest in Trizec Canada. In addition, further commitments were made through funds that will be drawn down over a two- to three-year time frame.

After acquiring nearly $3 billion in direct property interests in Canada during fiscal 2006, we focused primarily on Europe during fiscal 2007. We committed a total of $1.3 billion to eight funds and to a joint venture in which we partnered with ING Real Estate Investment Management UK to purchase two City of London office buildings.

Europe was selected as the first region for international expansion because its major markets are reasonably transparent, provide an attractive spread between the initial yields and borrowing costs, and have strong growth and value enhancement opportunities. Over the past year, the market has become increasingly competitive but still offers selective investment opportunities that are attractive on a risk-adjusted return basis and therefore will continue to be an area of interest.

REAL ESTATE INVESTMENTS – GEOGRAPHIC DIVERSIFICATION



As we expanded our capabilities and capacities, we have also been establishing investment relationships in the United States to complement those in Canada and Europe. The U.S. is the world's largest but most competitive real estate market. Our strategy there is to partner with like-minded investors in joint-venture arrangements for core holdings and invest in funds for specialized opportunities or strategies.

Shortly before the end of the fiscal year we established a relationship with New York-based TIAA-CREF, committing $330 million to a joint venture that will invest in class A office properties throughout the United States. The gross value of the joint venture, which includes debt, is expected to reach approximately $1.7 billion of which we will hold 49 per cent. TIAA-CREF has seeded the joint venture with one class A office property near San Francisco and another near Washington, D.C. We also committed $220 million to a TIAA-CREF strategy that invests in institutional-quality U.S. real estate assets.

The U.S. real estate assets we had acquired in 2002 through our investment in Trizec Canada and Trizec Properties REIT were sold this year to Brookfield Properties Corporation and The Blackstone Group for a realized gain of $336 million from the original investment.

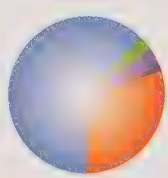
In Canada, we acquired a 50 per cent interest from RioCan REIT in three power centre retail projects under construction in Edmonton, Calgary and Burlington, Ontario. Our total commitment upon completion will be approximately $200 million. We are also participating in the redevelopment of Centre Mall in Hamilton, Ontario, and the construction of a third office tower in downtown Ottawa's Constitution Square. In June we sold eight of the non-core office buildings that were acquired last year as part of the purchase of 50 per cent of the O&Y Properties office portfolio.

At year end, Canadian properties represent 76 per cent of the real estate portfolio while the United States represents 5 per cent, the United Kingdom represents 17 per cent and Continental Europe represents 2 per cent, with investments concentrated in France and Germany.

As the fiscal year ended, we were finalizing the details on our first emerging markets real estate investment through Bentall Balloch China Property Development Fund. This fund will invest in residential development projects in cities within China with populations of between four and 10 million people. Emerging markets offer attractive opportunities as their economies develop and grow, but also entail greater risks than those present in more developed economies. While we recognize the risks, we believe the long-term growth profile of these markets provides opportunities suited to our fund's growth. Our emerging markets real estate strategy will initially be to concentrate on only a few countries in order to gain a good understanding of each market.

Fiscal 2008 plans include expansion of Canadian, U.S. and European relationships along with investigation of investment opportunities in Eastern Europe and additional emerging markets countries.

REAL ESTATE INVESTMENTS – PRODUCT TYPE DISTRIBUTION



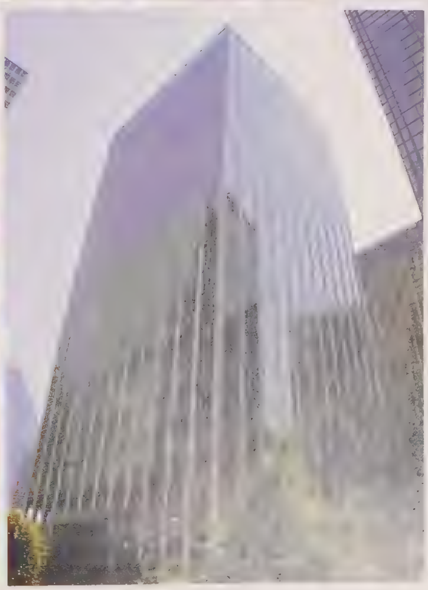
REAL ESTATE HOLDINGS

PROPERTY	City	Province/State	Country	Total Gross Leasing Area (sq. ft.)	Ownership Interest (%)
OFFICE PROPERTIES					
Altius Centre	Calgary	AB	Canada	306,000	50
Canterra Tower	Calgary	AB	Canada	819,000	50
Gulf Canada Square	Calgary	AB	Canada	1,120,000	50
Bell Tower	Edmonton	AB	Canada	473,000	50
Canadian Western Bank Place	Edmonton	AB	Canada	406,000	50
Edmonton City Centre (Office)	Edmonton	AB	Canada	998,000	50
Enbridge Tower	Edmonton	AB	Canada	183,000	50
Guinness Tower	Vancouver	BC	Canada	256,000	50
Marine Building	Vancouver	BC	Canada	171,000	50
Oceanic Plaza	Vancouver	BC	Canada	344,000	50
4342 Queen Street	Niagara Falls	ON	Canada	150,000	50
Constitution Square	Ottawa	ON	Canada	706,000	50
Jean Edmonds Towers	Ottawa	ON	Canada	553,000	50
Place de Ville I	Ottawa	ON	Canada	587,000	50
Place de Ville II	Ottawa	ON	Canada	610,000	50
18 King Street E.	Toronto	ON	Canada	229,000	50
2-24 St. Clair Avenue W.	Toronto	ON	Canada	232,000	50
40 St. Clair Avenue W.	Toronto	ON	Canada	122,000	50
First Canadian Place	Toronto	ON	Canada	2,611,000	25
2 Queen Street E.	Toronto	ON	Canada	464,000	50
One Financial Place	Toronto	ON	Canada	654,000	50
Royal Bank Plaza	Toronto	ON	Canada	1,483,000	50
Waterpark Place	Toronto	ON	Canada	802,000	50
Yonge/Richmond Centre	Toronto	ON	Canada	299,000	50
Tour KPMG	Montreal	PQ	Canada	508,000	50
Shenandoah Building	McLean	VA	USA	197,000	49
Stoneridge Corporate Plaza	Pleasanton	CA	USA	560,000	49
1 Bunhill Row	London	–	U.K.	264,000	80
55 Bishopsgate	London	–	U.K.	193,000	80
TOTAL OFFICE				**16,300,000**	
RETAIL PROPERTIES					
Edmonton City Centre (Retail)	Edmonton	AB	Canada	809,000	50
Pine Centre Mall	Prince George	BC	Canada	458,000	80
Cornwall Square	Cornwall	ON	Canada	250,000	80
Centre Mall	Hamilton	ON	Canada	339,000	80
White Oaks Mall	London	ON	Canada	674,000	80
Eastgate Square	Stoney Creek	ON	Canada	544,000	80
New Sudbury Centre	Sudbury	ON	Canada	533,000	80
Intercity Shopping Centre	Thunder Bay	ON	Canada	462,000	80
Promenades Cathédrale	Montreal	PQ	Canada	138,000	50
Les Galeries de la Capitale	Quebec City	PQ	Canada	1,346,000	80
Carrefour de l'Estrie	Sherbrooke	PQ	Canada	1,105,000	80
TOTAL RETAIL				**6,658,000**	
PORTFOLIO TOTAL				**22,958,000**	

CANTERRA TOWER
CALGARY, ALBERTA

CONSTITUTION SQUARE
OTTAWA, ONTARIO

55 BISHOPSGATE
LONDON, ENGLAND



OCEANIC PLAZA
VANCOUVER

"We believe the success of the CPP Fund's investment program is determined not only by the acquisitions we make but also by those we pass up."

COMPETITIVE MARKETS

Private Investments and Real Estate Investments have been working in particularly challenging markets where investor demand has far outpaced supply. These highly competitive environments demand an iron will to ensure the CPP Fund is fairly compensated for the risk assumed. While we succeeded in acquiring a number of quality assets this year, we were unsuccessful on others where bidding went beyond our valuation range and we adhered to our disciplined investment process. In effect, we believe the success of the CPP Fund's investment program is determined not only by the acquisitions we make but also by those we pass up.

Key Performance Drivers

This commentary discusses the performance of the CPP Fund and the activities of the CPP Investment Board in the context of our key performance drivers:

- *Focused Mandate:* Our sole mission is to contribute to the long-term sustainability of the Canada Pension Plan by investing its assets worldwide to maximize return without undue risk of loss.
- *Governance:* We are publicly accountable to the federal and provincial finance ministers who act as stewards of the CPP, while operating as an investment manager in the private sector at arm's length from governments.
- *Long-Term, Risk/Return Management:* The CPP Fund is managed as one cohesive portfolio to create investment value above a clear benchmark that directly reflects our mission. Its size and multi-generational mandate allow us to function as a long-term strategic investor.
- *People and Culture:* We have recruited talented and experienced individuals from around the world who are committed to building an investment organization that is internationally respected for its performance, capabilities and ethical conduct. Equally we ensure that our people understand and act in accordance with our mission to help ensure the pension benefits of generations of Canadians.

Economic and Financial Market Outlook

Given our long-term investment horizon and focus on diversifying the portfolio through global investments, we look at long-term financial trends.

The global economy turned in another stellar performance in fiscal 2007. Emerging markets, led by China and India, continued to record impressive rates of growth. In developed countries, including Europe and Japan, the expansion maintained a healthy pace while growth slowed noticeably over the course of the fiscal year in North America. A housing market correction in the United States and the lagged impact of past increases in the value of the Canadian dollar on trade-oriented sectors in Canada were the principal factors behind the slowdown. Equity markets, reflecting the strength of the global economy, healthy corporate balance sheets and low bond yields, posted strong gains before retreating near the end of the fiscal year.

Inflation remained relatively stable in most major industrial countries. However, since many economies were operating very close to capacity in fiscal 2007, central banks were in a tightening mode. The Federal Reserve Board, the Bank of Japan, the European Central Bank, the Bank of England and the Bank of Canada all raised short-term interest rates at some point during the past fiscal year.

Bond yields moved sideways, on average, although the yield curve remained unusually flat and in some instances was inverted. Currency markets were quite volatile during the past year, reflecting large swings in commodity prices and uncertainty about the durability of the U.S. expansion and that country's large current account deficit. The U.S. dollar moved slightly higher against the Canadian dollar and the Yen, while it declined relative to the Euro.

Going forward, our expectation is that the world economy will perform reasonably well over the next several years. North American economic growth should improve this year and beyond as the housing market correction in the U.S. runs its course and the export-oriented sectors in Canada more fully adjust to a Canadian dollar in the 85 to 90 cent U.S. range. Japan and Europe are expected to continue to experience moderate rates of growth while China and India should remain among the world leaders in terms of economic performance. This favourable environment will likely generate only modest returns in equity markets, given the outsized gains of the past couple of years. We expect that continued vigilance by central banks will contain inflation pressure and in some areas, like Japan and Europe, additional policy tightening may be required. This tightening, together with the steepening in the slope of the yield curve in most major industrial countries, will provide a challenging environment for fixed income markets.

The risks to the outlook are tilted to the downside. World oil prices are vulnerable to geopolitical developments while the U.S. housing market correction could well be more severe than anticipated. In addition, the resolution of the unsustainably large U.S. current account deficit and the staggering Chinese and Japanese current account surpluses threaten significant and abrupt currency adjustments that, in turn, could impair global economic performance.

Emerging Markets

As part of our continued strategy to diversify the portfolio by geography and asset class, we have formulated a strategic approach to emerging markets for our three investment departments. We will not be entering emerging markets seeking short-term opportunities. Instead, we will be making a long-term commitment to participate in these dynamic economies because we believe that emerging markets can have significant potential over the long term. This potential matches our investment horizon as we manage the CPP Fund in the context of our multi-generational mandate. Part of our rationale for international diversification is the belief that prudent investments in rapidly growing regions will enable the CPP Investment Board to harness the positive demographic growth and rising productivity of other regions to create a flow of foreign income back to Canada to help support pensions for Canadians.

Our entry into emerging markets will be measured and incremental, involving disciplined due diligence and strict observance of the risk parameters for each market. Based on in-depth analysis, we expect to focus initially on Greater China (China, Hong Kong and Taiwan) and South Korea. These are among the largest emerging markets in terms of gross domestic product (GDP), population and financial assets; therefore, they are capable of generating a meaningful contribution to our portfolio performance over the long term. They have medium to high projected GDP growth over the next decade and present a medium to low risk profile relative to other emerging markets. An ancillary benefit of this geographic focus is the proximity to Japan, where we see potential for other private equity opportunities. We may also invest in emerging markets outside our target area that meet the characteristics and size criteria in our framework and that also pass our risk management tests.

"The corporate objectives for fiscal 2008 reflect our continued focus on the implementation of our business plan with a commitment to broaden the investment portfolio, deepen our capabilities and build an enduring world-class investment management organization."

We will enter emerging markets in three ways. Initially we will seek broad exposures through the public markets. Subsequently we will pursue specific opportunities in private equity funds, real estate and infrastructure, working through funds and local partners to build expertise for the future. Finally, once we have a sufficient knowledge base, we will engage in direct investments in joint ventures with local partners. This will be a multi-year strategy.

Fiscal 2008 Objectives

The corporate objectives for fiscal 2008 reflect our continued focus on the implementation of our strategic plan with a commitment to broaden the investment portfolio, deepen our capabilities and build an enduring world-class investment management organization.
Our over-arching goal is to achieve or exceed the value-added 2008 performance target set in relation to the CPP Reference Portfolio. To support that goal, we have three key objectives:

- Broaden the diversification of the investment portfolio through different geographies and asset classes and through alpha-based strategies;
- Further develop our internal staff capabilities and our investment processes to align with the growing size and complexity of the portfolio, with a focus on expanding our ability to concurrently pursue multiple investment strategies and transactions; and
- Build an enduring organization by fostering an organizational culture that serves our multi-generational mandate, advancing projects on reputation management and human resources management, and building a scalable technology and operational infrastructure.

To deepen our understanding of foreign markets and increase access to investment opportunities and local market expertise, we plan to open our first two international offices – in London and Hong Kong – in fiscal 2009. Logistical planning and staffing will be carried out in fiscal 2008. These offices will initially meet the needs of our Private Investments and Real Estate Investments departments.

Cash for Benefits Portfolio

In August 2005, Finance Canada transferred to the CPP Investment Board full responsibility for managing the short-term cash used by the CPP to pay current benefits. Beginning in fiscal 2007 the assets required for this purpose were segregated from the investment portfolio and separately managed as the Cash for Benefits portfolio. This portfolio is in liquid money market instruments with the primary objective to ensure the CPP has the necessary liquidity to meet benefit payment obligations on any business day. A secondary objective is to match or exceed the benchmark return of the Scotia Capital Markets 91-day T-bill Index. The portfolio earned 3.2 per cent for fiscal 2007 versus 3.1 per cent for the index.

Enterprise Risk Management

Our investment activities and business transactions expose us to a broad range of risks. The Enterprise Risk Management (ERM) framework provides our board of directors and senior management team with a comprehensive view of the risks we face and the controls we have in place to manage those risks within acceptable levels of tolerance. Every member of the CPP Investment Board team plays a role in our risk management culture.

The board of directors is responsible for ensuring that management has identified the principal risks of the business and has established the appropriate control environment. The management team is also charged with ensuring that the organization has adequate tools, training and resources to manage the risk inherent in day-to-day operations. The actual work of managing risk is done at the business level, as close to the source of those risks as possible. Internal and external auditors, in the course of executing their audit plans, provide input to management and the board of directors on the effectiveness of the organization's risk management practices.

Our ERM framework is the blueprint for managing risks throughout the organization. The current framework, created in 2003, was suitable for the organization at that time. Given the growth in size and complexity of the CPP Fund and further changes anticipated for the future, management has determined the need for a more comprehensive framework that is more adaptable and capable of growing with the organization.

The 2003 framework identified seven key risk categories, which were defined in the annual reports for fiscal 2005 and 2006. We have condensed the number of risk categories to five, to better focus on our major risks. The five are:

- ***Investment Risk:*** The risk inherent in achieving investment goals and objectives, including market, credit and liquidity risk.
  - The operationalization of our Risk/Return Accountability Framework has substantially increased the risk management focus of our investment decision-making. Under this approach, risk decisions are made at the total portfolio level. The board of directors has approved an active risk limit, and management strives to maximize active returns within this limit not within individual asset classes.
- ***Strategic Risk:*** The risk that an enterprise or particular business area will make inappropriate strategic choices or be unable to successfully implement selected strategies.
  - The CPP Investment Board's business plans are created annually to operationalize our strategic direction. Progress against the business plans is reviewed quarterly by senior management with our board of directors.
- ***Legislative and Regulatory Risk:*** The risk of loss due to non-compliance with actual or proposed laws, rules and regulations and prescribed industry practices.
  - Our primary risk management strategy here is our compliance management process, which ensures we have robust practices in place to manage legislative and regulatory risk. It includes oversight by our Legal department and also obtains input from external legal counsel to ensure completeness and accuracy in compliance with all relevant regulations.
- ***Operational Risk:*** The risk of loss from inadequate or failed internal processes, people or systems, or from external factors.
  - Strategies to mitigate operational risk include performing risk and control reviews and continuing our strong hiring practices to ensure that we have the right resources to meet our business challenges. Our operational risk activities also include a business continuity program that defines the best response to any business interruption at the CPP Investment Board.

- *Reputational Risk:* Risk of loss of reputation, credibility or image due to internal or external factors.
  - Reputational risk management will continue to be a key focus for our Enterprise Risk and Controls Group in 2008. We will strengthen our approach by building on the solid foundation we currently have in place. The CPP Investment Board has built a culture based on strong ethics which guides all our activities as reflected in our code of conduct. As an example, all employees and directors are required to disclose any personal trading or business interests that might lead to a real, potential or perceived conflict of interest or result in personal benefit.

As the CPP Investment Board grows in size and scope, so does the array of organizational risks that we manage. We have a number of initiatives planned for fiscal 2008 to address our changing risk profile. These include enhancing our ERM framework and implementing a more rigorous ERM process.

We intend to launch an initiative to review, document and evaluate our internal controls over financial reporting. This certification initiative will be integrated with our ERM framework by using the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). While we are not subject to public company certification requirements, we are committed to maintaining a strong corporate governance framework that is consistent with our commitment to accountability.

Running an Efficient, Effective Business Operation

Fiscal 2007 marked a year of substantial growth for the CPP Investment Board. Our staff increased significantly as our investment management activities expanded in scope, complexity and sophistication. We expanded and deepened relationships with the external investment managers who are very important to our success. And we made progress in building our capabilities to develop scalable processes and systems in support of our corporate objectives.

The total cost of operating the CPP Investment Board for the year (excluding external investment management fees) was $114 million compared with $54 million for fiscal 2006. Expressed another way, total operating expenses were 11.2 cents per $100 of invested assets compared with 7.1 cents for the prior year.

Our cost levels have historically been lower than the total operating expenses for other comparable large public pension funds in Canada. This differential is primarily due to our early stage of evolution as a business. As we evolve to address the relative growth and increasing complexity of our portfolio, we expect that this cost differential will narrow.

For further details, please see Note 8 of the Consolidated Financial Statements. External investment management fees are described in Note 7.

Human Resources

Our goal this year was to continue strengthening the organization by adding capabilities in our investment departments, investment decision support areas and core services functions. We were successful on this front despite an industry-wide challenge in finding employees with the right combination of technical expertise, experience and personal attributes. There continues to be heavy demand for and a limited supply of talented investment and information systems professionals.

Key to our success is the fact that the CPP Investment Board presents a compelling career proposition. We have the asset base and resources of one of the world's largest single-purpose capital pools, a disciplined and differentiated approach to investing, a passion for bringing highly talented team players to the organization, and a steadfast commitment to the highest standards of ethical conduct in the service of over 16 million CPP contributors and beneficiaries. Significantly, in addition to these hallmarks of a successful, established organization, we offer the rare opportunity to participate fully in the actual creation of a professional investment management organization capable of investing in any asset class anywhere in the world.

Staff increased by approximately 70 per cent from the previous fiscal year for a total of almost 260 full-time employees, filling more than 90 per cent of our openings within our target of 90 days. This increase – in line with asset growth and the growing complexity of the portfolio – included the recruitment of 15 senior professionals at the director or vice-president level. In fiscal 2008 we expect to hire approximately 100 regular full-time and 30 contract employees. This includes staffing for our first foreign offices, in London and Hong Kong, which are scheduled to open early in fiscal 2009.

To support the development of organizational capabilities aimed at generating higher portfolio returns, we invested heavily this year in making our Human Resources recruitment and retention programs more efficient, scalable and enduring. This included the development and implementation of comprehensive applicant tracking and HR information systems.

Our leadership team is now almost fully in place and we are moving toward a full staff complement over the next two years. The growth prospects of the CPP Fund enable us to continue to offer attractive career opportunities to our current employees and prospects. In our recruiting activities, we have benefited from the recommendations of our employees to others as well as our expanded on-campus recruitment at universities across Canada.

Effective External Partners

The accelerated growth of the CPP Fund is unprecedented for a Canadian public pension fund, and external partners continue to be an important part of how we invest, create value and operate the organization. Page 53 lists our investment partners in fiscal 2007 – 14 more than in the previous year.

Partnering enables us to enter markets faster, at lower cost and with more diversification than we could achieve on our own. We obtain efficient access to different asset classes, different active strategies, top-performing investment managers, and to specialized investment expertise and local knowledge in specific geographic regions.

External partners also assist us in building internal capabilities in areas where we have a comparative advantage by sharing their keen proprietary insights. Our internal investment program has been carefully designed to complement, not compete with, the activities of the partners whose service we value.

While most institutional investors are relatively passive providers of capital to their external partners, the CPP Investment Board views these relationships as mutually beneficial alliances. As mentioned earlier, our approach to new markets has been to enter fund relationships while concurrently increasing our own internal experience and capabilities. Management has adopted a structured policy under which we seek partners who:

- Offer capabilities, experience and knowledge transfer that can accelerate our development as an investment management organization;
- Are willing to invest to understand our goals and approaches to investing;
- Are committed to integrity and fair dealing in their business practices; and
- Offer a diverse skill set, ongoing support and the ability to work with us for an extended period of time.

In addition to fair remuneration for their skills, we offer in return a sophisticated research and test environment, the opportunity to address complex problems in a high-growth environment, relevant access to our strategy and goals, and potential access to future assignments.

Finance and Operations

Finance and Operations is responsible for processing and oversight of our investment operations including Investment Performance and Risk Measurement, Information Services, Enterprise Risk Management and External Reporting.

This department has been particularly challenged by our concurrent requirements to fulfill today's responsibilities while developing systems and processes to address future needs. Finance and Operations must expand existing processes and systems to meet current needs as the portfolio grows in scope and complexity, while at the same time look ahead to develop scalable processes and systems that will support the long-term growth we envision. Operationally, we have made a clear distinction between maintaining existing systems and creating new ones.

Finance and Operations underwent a change in leadership in fiscal 2007. Last spring we filled the newly created position of chief operations officer and in the fall recruited a vice-president in charge of information services. The department has been reorganized to better align with our investment departments and new emphasis has been placed on increasing and augmenting leadership and specialized expertise. Staffing doubled this year with additional growth expected in fiscal 2008.

Finance and Operations has been implementing a multi-year program to continue to support the organization's investment strategies. Priorities for fiscal 2008 include implementing a target state technology architecture and continuing to streamline processes within the department. This includes defining our technology and process architecture roadmap by understanding our current state and defining how we transition to our target state. In addition, we are identifying our core competencies to best determine which functions or processes we should internalize. As an example, late this past fiscal year, we contracted to outsource our data centre and network infrastructure processes to a major technology firm, allowing our Information Services team to focus on systems applications and architecture.

While realigning itself, Finance and Operations contributed directly to the achievement of corporate objectives in fiscal 2007 through the implementation of a number of major management projects. Operationalizing the total portfolio approach required a complete overhaul of investment performance reporting and risk measurement. This also included the implementation of a major initiative to balance our private equity investments and our public market holdings and measure performance accordingly. This initiative will also enable us to better understand the underlying companies within the private equity funds in

"Canadians have the right to know why, how and where we invest their Canada Pension Plan money, who makes the investment decisions, what assets are owned on their behalf, and how the investments are performing."

CPP Investment Board Disclosure Policy

which we invest and thereby better monitor and evaluate the performance of our fund partners.

Another initiative this year was to enhance our valuation policies for private investments and real estate investments to conform with new fair value accounting standards, and we will be implementing new policies effective April 1, 2007. Current valuation policies are discussed on page 42 and in Note 1b of the Consolidated Financial Statements.

Responsibly Serving Canadians

Accountability and disclosure are hallmarks of the distinct governance model that was carefully designed by the federal and provincial finance ministers to meet our specific investment mission.

ACCOUNTABILITY

As set out in our founding legislation, the CPP Investment Board is accountable to the stewards of the Canada Pension Plan: the federal finance minister and the finance ministers of the participating provinces. We report to Parliament through the finance minister, who tables our annual report in the House of Commons. Quarterly financial statements are filed with the federal and provincial finance ministers. Further, the Chair and the CEO take questions and comments from individual Canadians and stakeholder groups at biennial public meetings in each of the provinces that participate in the Canada Pension Plan. Nine such meetings were held during fiscal 2007.

An external audit firm conducts an audit every year. The federal and provincial finance ministers include the CPP Investment Board as part of their scheduled review of the entire Canada Pension Plan every three years. Every six years, we undergo external examination of our records, systems and practices, as required for all Crown corporations. Additionally, the federal minister of finance can order a special audit at any time.

As part of our commitment to ethical conduct, the CPP Investment Board has exceeded legislated requirements as well as industry norms in establishing and maintaining high standards of conduct and business practice. Our comprehensive governance and accountability framework includes a number of measures designed to preserve the public trust. One such measure is our code of conduct for directors, officers and employees. This code, for example, obligates directors, officers and employees to act as whistle-blowers if they become aware of any suspected breaches. Any such report can be made confidentially to an external conduct review advisor, who is not part of management or the board of directors, and who reports formally to the Chair and the board at least once a year. The Honourable Frank Iacobucci, a former justice of the Supreme Court of Canada, former member of the Ontario Securities Commission and author of five major books on business law, was appointed to this position in fiscal 2006.

We have also adopted internal standards and policies to ensure we always act responsibly as a capital markets participant.

DISCLOSURE

Our disclosure policy goes well beyond legislated requirements. Indeed, we disclose more information, more often, than any other pension fund in Canada and, to our knowledge, anywhere in the world. This includes the quarterly release of investment results. Our website contains more than 1,200 pages of information about how we operate, a complete list of investment holdings and a list of our investment partners with links to their websites. As well, interested parties can access the legislation and regulations that govern our activities, and our by-laws, governance manual and policies including the investment statements that guide us in managing the CPP Fund and Cash for Benefits portfolio. The website maintains an archive dating back to fiscal 1999, when we began investing, and contains a page that solicits feedback and questions.

Accounting Policies

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to adopt accounting policies and to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. The significant accounting policies adopted by the CPP Investment Board are described in Note 1 of the Consolidated Financial Statements. The most critical accounting estimates made by management are in the valuation of investments as described below.

VALUATION OF INVESTMENTS

All of our investments are stated at fair value. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Quoted market prices are used to represent the fair value for investments traded on an active market, such as publicly-traded stocks.

In the case of private equity, infrastructure and private real estate investments, where quoted market prices are not available, fair value is determined using accepted industry valuation methods. Bonds transferred from the CPP are non-marketable and are valued using discounted cash flows based on current market yields of instruments with similar characteristics and then adjusted for the non-marketability and rollover provisions of the bonds. Significant estimates and judgments are required in determining the estimated fair value of these investments and, therefore, actual results could differ from those estimates.

FUTURE ACCOUNTING POLICY CHANGE

In April 2005, the Canadian Institute of Chartered Accountants (CICA) issued section 3855, Financial Instruments – Recognition and Measurement, which is effective for fiscal years beginning on or after October 1, 2006. As the CPP Investment Board qualifies as an Investment Company and reports its investments at fair value in accordance with CICA Accounting Guideline 18, Investment Companies, only certain aspects of section 3855 are applicable.

Effective April 1, 2007, the CPP Investment Board will adopt the fair value measurement considerations of section 3855. The impact on the CPP Investment Board is a change in the way certain investments are valued, expensing of transaction costs when incurred and applying the effective interest method in accounting for interest income on bonds. On April 1, 2007, the investments of the CPP Investment Board will be remeasured to reflect the new valuation standards. This transition adjustment will be recognized in the opening accumulated net income from operations at April 1, 2007, and is not expected to have a material impact to the CPP Investment Board's consolidated financial position.

Compensation Discussion and Analysis

Report on Executive Compensation

Committee Mandate

The human resources and compensation committee (HRCC) assists the board in fulfilling its obligations relating to compensation of the chief executive officer and his or her senior vice-presidents (collectively the "officers"), as well as to compensation and human resources issues relating to all other employees. Specifically, the HRCC:

- Reviews and approves value-added performance benchmarks applicable to all incentive-based compensation, including that of the officers and the CEO;
- Participates in a performance evaluation process for the CEO, and determines and recommends to the board the CEO's compensation level based on this evaluation;
- Reviews and recommends to the board the framework for officer compensation plans and the compensation levels for officers, as well as the aggregate level of incentive compensation for non-officer employees;
- Oversees the disclosure of directors' and officers' compensation in the CPP Investment Board's annual report; and
- Reviews organizational structure and succession planning, and oversees employee benefits, employee pension plans and human resources policies.

The committee, the members of which are set out below, is composed entirely of directors who are independent of management as defined by Canadian regulatory standards, and none of the HRCC's members are sitting CEOs.

The CEO and the senior vice-president of Human Resources of the CPP Investment Board are not members of the committee, but attend portions of HRCC meetings at the request of the committee. *In-camera* sessions are held as determined by the committee, including at the beginning and end of each committee meeting.

Committee members during fiscal 2007 were:

- Ronald E. Smith, chair
- Jacob Levi[i]
- Helen M. Meyer
- Dale G. Parker
- Germaine Gibara

Committee members for fiscal 2008 are:

- Ronald E. Smith, chair
- Dale G. Parker
- Germaine Gibara
- Helen M. Meyer[ii]
- Ian A. Bourne (appointed effective May 10, 2007)
- D. Murray Wallace (appointed effective May 10, 2007)

To ensure that the Corporation's longer-term compensation programs are effective in delivering their objectives, the committee regularly reviews modelled compensation scenarios that illustrate the impact of various future performance outcomes on previously awarded and outstanding compensation. The committee is satisfied that the intended relationship between pay and performance is appropriate for all of the officers, and that, in aggregate, the resulting compensation modelled under various performance scenarios is reasonable, not excessive, and delivers the intended differentiation of compensation value based on performance.

[i] Jacob Levi's term as a director ended in December 2006
[ii] Helen M. Meyer's term as a director ended in April 2007

In administering the plan, HRCC may use its judgment in varying the amounts payable to officers.

ADVISORS TO THE COMMITTEE

In order to assist in the fulfillment of its obligation to the board and to the stakeholders of the CPP Investment Board, the committee has the authority to employ or commission outside advisors.

The HRCC directly employs an independent advisor to provide it with advice and guidance on compensation issues. The HRCC had two such advisors during 2006, Mercer Human Resources Consulting (Mercer) and Hugessen Consulting Inc. (HCI). A change in advisor was prompted when the HRCC's primary consultant left Mercer in 2006 to form HCI. After due consideration, HCI was selected in October 2006 as the HRCC's primary advisor on the strength of its experience providing large financial institutions in Canada with advice on executive and board compensation issues.

HCI's mandate is to provide advice on the competitiveness and appropriateness of compensation programs for officers, and on related compensation and governance issues. Any services provided by HCI other than in its role as advisor to the committee require written pre-approval by the committee, outlining the scope of work and related fees. The committee will not approve any such work that, in its view, could compromise HCI's independence as an advisor to the committee. HCI provided no other services to the CPP Investment Board in fiscal 2006 or 2007.

The decisions made by the HRCC are the responsibility of the committee, and may reflect factors other than the recommendations and information provided by HCI.

HRCC's Key Activities Relating to Fiscal Year 2007 (Summary)

ANNUAL ACTIVITIES

- Reviewed and recommended for board approval on the following matters:
  - For the CEO, fiscal 2007 salary adjustment and fiscal 2007 bonus, taking into account the results of the board's evaluation of the CEO's performance
  - For each individual officer, the CEO's proposed fiscal 2007 salary adjustment and fiscal 2007 bonus, taking into account the CEO's evaluation of the officer's performance
  - For non-officers, merit budget for fiscal 2007 salary adjustments and pool for fiscal 2007 bonuses
  - Overall compensation framework for the CPP Investment Board, including performance targets
  - Directors' and officers' compensation disclosure in the annual report
- Oversaw benchmarking review of officers' compensation
- Monitored staffing and succession plans
- Reviewed pension committee's reports
- Reviewed human resources policies
- Provided oversight of benefits changes

SPECIAL ACTIVITIES

- Reviewed HRCC's Terms of Reference
- Approved offer details and compensation for a new officer (Myra Libenson, Chief Operations Officer (COO))
- Expanded disclosure in HRCC report section of CPP Investment Board annual report
- Oversaw implementation of a deferral option for Short-Term Incentive Plan (STIP) payments
- Reviewed strategic human resources business plan

- Oversaw changes to the executive compensation framework for the CEO and qualifying senior investment professionals (see "Recent Changes to the Executive Compensation Framework" section on page 46)

The HRCC held four meetings in fiscal 2007; during each meeting, time was set aside for *in-camera* sessions. The committee also held a meeting in May focusing on performance targets and compensation decisions, and will hold at least three further meetings in fiscal 2008.

Compensation Program Overview

STRATEGIC CONTEXT

The CPP Investment Board is managed independently of the Canada Pension Plan by experienced investment and management professionals to help sustain the pensions of Canadians. Its role is to invest the CPP Fund to maximize returns without undue risk of loss; in fulfilling this mission, the CPP Investment Board believes that:

- World-class investment management capability is a cornerstone of its operation;
- Ongoing talent acquisition, retention and motivation in the investment management marketplace is essential;
- Proven investment professionals are recruited from a small, highly sought after talent pool; and therefore
- Providing a competitive compensation opportunity relative to the investment management industry is essential.

OBJECTIVES OF THE EXECUTIVE COMPENSATION PROGRAM

The CPP Investment Board's executive compensation philosophy is founded on a recognition of the importance of an experienced and effective leadership team to the achievement of the organization's long-term goals. Its objectives are therefore:

- To recruit and retain best-in-class leadership talent with a particular focus on investment management leadership, recognizing that for certain roles the CPP Investment Board is increasingly having to compete in global markets to find the requisite talent;
- To reward officers for achieving results that contribute to the long-term goals of the CPP Investment Board, through a "pay-for-performance" framework; and
- To create and sustain partnering throughout the organization with a meaningful proportion of incentives for investment and core services professionals linked to CPP Fund performance.

The CPP Investment Board's compensation framework is comparable to those at other large public sector pension plans, and is based on and meant to support the CPP Investment Board's guiding principles of integrity, partnership and high performance.

PAY-FOR-PERFORMANCE PHILOSOPHY

The CPP Investment Board is firmly committed to a pay-for-performance approach that directly links compensation to fund and individual performance. Performance is measured as follows:

- CPP Fund investment performance is measured by comparing overall investment returns to returns posted by a CPP Reference Portfolio.
- Asset class investment performance is measured against the returns from benchmark portfolios appropriate to each class.
- Individual performance is measured against "S.M.A.R.T." criteria (i.e., criteria that are specific, measurable, achievable, relevant and time-based) established at the beginning of each fiscal year.

Depending on an individual officer's seniority and investment responsibility, the weightings of performance measures will vary, as shown in the tables below.[iii]

"STIP" (Short-Term Incentive Plan) weightings:

TABLE 1: STIP WEIGHTINGS

	Investment Performance		
	CPP Fund	Asset Class	Individual Performance
CEO	High	None	High
Officers – investment	Medium	Medium	Medium
Officers – core services	Medium	None	High

"LTIP" (Long-Term Incentive Plan) weightings:

TABLE 2: LTIP WEIGHTINGS

	Investment Performance	
	CPP Fund	Asset Class
CEO	All	None
Officers – investment	Medium–High	Medium
Officers – core services	All	None

MARKET POSITIONING

The competitiveness of the CPP Investment Board's executive compensation framework is assessed relative to peer organizations employing investment management and other talent similar to that employed by the CPP Investment Board, also weighed against criteria such as assets under management and geographic scope. Such organizations include other major Canadian pension funds and large investment management firms. Also used are various independent surveys of compensation in the investment management industry, including data on corporate and public pension funds, insurance companies, controlled and independent investment managers, and private equity firms.

RECENT CHANGES TO THE EXECUTIVE COMPENSATION FRAMEWORK

The CPP Investment Board's current incentive compensation framework was formally adopted in June 2005, and since then has evolved with changes in the CPP Investment Board's investment program and with the growing sophistication of the organization and its capabilities.

As the CPP Investment Board increasingly adopts an active management style with regard to investments, the need for investment professionals with the requisite active management skills and experience has increased markedly. The CPP Investment Board now finds itself competing in a global market for the specialized investment talent that it needs to accomplish its goals.

[iii] Established in fiscal 2006, the compensation framework is in the midst of transitioning to a "steady state" mix of weightings, a transition due to be complete by fiscal 2009. The tables reflect this mix. For STIP, an increasing percentage of the incentive payout will be based on the performance of the fund and a decreasing percentage on individual performance. Simultaneously, both the short- and long-term plans will extend their performance-measurement baselines from one year to four years, reflecting the CPP Investment Board's view that performance should be achieved on a sustained basis.

To address this challenge, the board has approved revisions to the compensation framework as it applies to the CEO and to qualifying senior investment professionals. For fiscal 2008 and onwards, the Short-Term Incentive Plan's (STIP) percentage of base salary at target has been increased, and an additional long-term compensation and retention program has been introduced using "Restricted Fund Units" (RFUs), a notional investment in the CPP Fund that fluctuates in value according to CPP Fund performance and pays out over three years.

In addition to these changes to the ongoing compensation framework, the board also approved discretionary compensation adjustments comprised of cash, LTIP and RFUs, for the CEO and a small number of senior investment professionals, in order to appropriately reward extraordinary 2007 performance and to ensure retention of these key executives.

Executive Compensation Components and Mix

Commensurate with the CPP Investment Board's compensation philosophy, the majority of total pay is incentive-based, as shown in the following table:

TABLE 3: MIX OF TOTAL DIRECT COMPENSATION, FISCAL 2007

	Mix of Total Direct Compensation at Target and at Maximum (in brackets)			
	Salary	STIP (four-year results)	LTIP (four-year results)	Total Direct Compensation
CEO	33% (17%)	33% (33%)	34% (50%)	**100%**
Officers – investment	33% (17%)	33% (33%)	34% (50%)	**100%**
Officers – core services	46% (26%)	36% (42%)	18% (32%)	**100%**

BASE SALARY

Base salaries for officers are intended to be market-competitive. Officers' salaries are reviewed annually after the end of each fiscal year and are approved by the board. They are adjusted each year based on individual merit and on salary range adjustments occurring among CPP Investment Board's comparators.

STIP

The Short-Term Incentive Plan is designed to incent and reward investment performance at CPP Fund and/or asset class levels, along with the individual performance of officers over the course of the year.

Target STIP awards are set as a percentage of salary, to which a multiplier is applied. The multiplier is based both on actual fund performance (CPP Fund and asset class) and on individual performance, and cannot result in a payout of more than two times the target award. By fiscal 2009 the investment performance measurement timeframe will be based on a four-year trailing historical span; for fiscal 2007 a two-year span is used.

In fiscal 2007, the CPP Investment Board instituted a deferral option for STIP that will allow employees to defer some or all of their bonus payouts for up to two years. Deferred payouts will be notionally invested in the CPP Fund or, if the officer so elects, up to 50 per cent in the CPP Fund Private Investment Portfolio; the payouts will thus increase or decrease in value over the deferral period. This serves as another means of aligning executive interests with the performance of the CPP Fund.

LTIP

The Long-Term Incentive Plan is designed to incent and reward investment performance over a four-year span, which supports the CPP Investment Board's overall goal of contributing to the long-term strength of the Canada Pension Plan.

Target LTIP awards are set as a percentage of salary at the outset of each year, and are paid out at the end of a four-year cycle. As with STIP, a multiplier is applied to the target percentage, based on the investment performance of the CPP Fund and its asset classes as compared with specified benchmarks; by the end of the four-year period this multiplier cannot exceed three times the value of the target award. The final payout is increased (or decreased) based on the fund's four-year compounded rate of return.

RFUs (RESTRICTED FUND UNITS)

Restricted Fund Units are designed to retain senior investment professionals and to moderate the volatility of overall pay while maintaining a direct link between the value of the units and the performance of the CPP Fund. A notional investment in the fund, RFUs fluctuate in value according to CPP Fund performance, and vest and are paid out in cash at a rate of ⅓ per year.

BENEFITS AND OTHER COMPENSATION

Non-pension benefits offered by the CPP Investment Board are competitive with the industry, and include life insurance, disability benefits, health and dental benefits, time-off policies and an employee assistance program. The CPP Investment Board's pension benefits, comprising contributions to a defined contribution registered pension plan and a defined contribution supplementary pension plan, and its perquisites, including fitness and club dues, paid parking or transit passes, and other miscellaneous remuneration, are all conservative relative to comparables.

Summary Performance Table

As described in more detail on page 22 in this report, the CPP Fund in fiscal 2007 significantly exceeded its maximum target for added value:

TABLE 4: CPP FUND PERFORMANCE

			Target Value-Added (bps)				
	CPP Reference Portfolio Return	CPP Fund Return	Threshold	Target	Maximum	Actual Value-Added (bps)	Actual Value-Added ($ billions)
CPP Fund	10.4%	12.9%	-5	35	195	245	2.4

Specific asset classes performed in fiscal 2007 as follows:

TABLE 5: ASSET CLASS PERFORMANCE

ASSET CLASS	Fiscal 2007 Performance
Public Market Investments	Did not fully meet target
Private Investments	Significantly exceeded target
Real Estate Investments	Significantly exceeded target
Infrastructure	Exceeded target

CPP Investment Board also established a series of non-financial goals for fiscal 2007, as outlined in the 2006 annual report:

1. Continue to diversify the portfolio by asset class, risk/return characteristics and geography with a particular focus on increasing international investments;
2. Fully operationalize the total portfolio approach to portfolio management and create value-added returns above the CPP Reference Portfolio benchmark;
3. Begin our internal active management program for public equities and expand our principal investing activities in private equities, infrastructure and real estate; and
4. Extend the implementation of the technology and business process architecture that was defined in fiscal 2006.

Underlying these goals were 35 specific and measurable objectives. Progress against these objectives was reviewed with the board on a quarterly basis and, at year's end, the status of the CPP Investment Board's primary goals was as follows:

TABLE 6: STATUS OF NON-FINANCIAL GOALS

OBJECTIVES	Status at Year-End
Diversify portfolio	Achieved
Operationalize total portfolio approach to portfolio management	Achieved
Begin internal active management program for public equities; expand investing activities in private equities, infrastructure and real estate	Achieved
Extend implementation of technology and business process architecture	Achieved

Compensation of the CEO

As with other officers, Mr. Denison's total compensation is closely linked to a combination of individual and CPP Fund performance measures. At the beginning of each fiscal year, the board and the CEO agree on key objectives, and Mr. Denison's performance in achieving those objectives is evaluated by the board at the end of the fiscal year. This evaluation is then used by the HRCC in recommending his incentive compensation to the board for the year. For fiscal 2007, Mr. Denison's compensation consisted of base salary, awards under the STIP and LTIP programs, a discretionary compensation adjustment (as described on page 47), and various pension and non-pension benefits and perquisites.

As summarized above and discussed elsewhere in the annual report, the CPP Fund's overall performance under Mr. Denison's leadership exceeded the target value-add benchmark significantly in 2007. Mr. Denison's personal objectives for 2007 were aligned with the non-financial goals summarized above, and all four of these key goals were achieved in 2007. In evaluating the CEO's overall performance, the board took particular note of the CEO's outstanding leadership in implementing a demanding business strategy, the positioning of the corporation for sustained growth with an increasing ability to meet ever more demanding investment objectives and the CEO's direct contribution toward success in building a high-performance organization.

Summary Compensation Table

Compensation earned in fiscal 2007 by the CEO, the COO and the CPP Investment Board's three most highly compensated officers other than the CEO or COO (collectively, the named executive officers, or NEOs) amounted to $7,829,994 (2006 – $4,047,815). Individual compensation for these officers consisted of the following[1]:

TABLE 7: SUMMARY COMPENSATION TABLE

	Year	Salary	Annual Bonus[2]	Long-Term Bonus[3]	Pension Contributions[4]	SPP Contributions[4]	Benefits and Other Compensation[5]	Total Compensation
David F. Denison, CEO[6]	2007	$ 460,000	$1,840,000	–	$ 12,765	$ 51,334	$ 10,013	**$2,374,112**
	2006	$ 450,000	$ 562,500	–	$ 13,576	$ 31,196	$ 9,705	**$1,066,977**
	2005	$ 93,462	$ 82,500	–	$ 5,767	–	$ 1,968	**$ 183,697**
Myra Libenson, COO[7]	2007	$ 223,269	$ 320,000	–	$ 13,529	–	$ 4,367	**$ 561,165**
Mark D. Wiseman, SVP PRIVATE INVESTMENTS[8]	2007	$ 310,000	$1,360,000	–	$ 12,784	$ 23,334	$ 6,426	**$1,712,544**
	2006	$ 242,308	$ 900,000	–	$ 14,684	–	$ 4,722	**$1,161,714**
Donald M. Raymond, SVP PUBLIC MARKET INVESTMENTS[9]	2007	$ 310,000	$1,177,000	$ 240,438	$ 12,777	$ 34,423	$ 6,580	**$1,781,218**
	2006	$ 295,000	$ 330,000	$ 190,960	$ 12,396	$ 32,599	$ 6,368	**$ 867,323**
	2005	$ 275,000	$ 285,000	$ 119,302	$ 12,132	$ 21,163	$ 8,957	**$ 721,554**
Graeme M. Eadie, SVP REAL ESTATE INVESTMENTS	2007	$ 285,000	$1,077,000	–	$ 12,828	$ 19,884	$ 6,243	**$1,400,955**
	2006	$ 216,827	$ 275,000	–	$ 13,027	–	$ 5,188	**$ 510,042**

[1] Jane Nyman, former Vice-President – Finance, ceased employment with the CPP Investment Board on May 17, 2006. Total compensation earned during fiscal 2007 by Ms. Nyman amounted to $40,341, which consisted of a salary of $26,654 and other payments of $13,687.

[2] STIP: Target STIP awards are set as a percentage of salary, to which a multiplier is applied. The multiplier is based both on actual CPP Fund performance (Total Fund and asset class) and on individual performance, and cannot result in a payout more than two times the target award. Additionally for Mr. Denison, Mr. Wiseman, Mr. Raymond, and Mr. Eadie, annual bonus includes the cash portion of discretionary compensation adjustments. These payments were designed to transition senior investment professionals closer to market compensation levels (levels reflected in the 2008 compensation structure).

[3] LTIP and RFUs: Long-term bonuses reflect amounts payable for the current year. Prior to fiscal 2006, LTIP bonuses were granted at the end of each fiscal year based on the achievement of agreed upon objectives; amounts awarded but not yet paid under this plan are adjusted annually by the CPP Investment Board returns and are payable at the end of a three-year period from the date they were granted. Starting in fiscal 2006, target LTIP awards are set as a percentage of salary at the outset of each year, and are paid out at the end of a four-year cycle. As with STIP, a multiplier is applied to the target percentage based on the investment performance of the CPP Fund and its asset classes as compared with specified benchmarks; by the end of the four-year period this multiplier cannot exceed three times the value of the target award. The final payout is increased (or decreased) based on the CPP Fund's four-year compounded rate of return. RFUs: A notional investment in the CPP Fund, RFUs fluctuate in value according to CPP Fund performance, and vest and are paid out in cash at a rate of ⅓ per year. No RFU grants were made and no amounts are payable in fiscal 2007.

[4] CPP Investment Board contributes to the defined contribution pension plan and notionally contributes to the supplementary pension plan. Under the defined contribution registered pension plan, officers contribute 3 per cent of annual eligible earnings and the CPP Investment Board contributes 6 per cent to the maximum allowed under the *Income Tax Act (Canada)*. Eligible earnings include salary plus annual bonus to a maximum of 50 per cent of total salary. Under the defined contribution supplementary pension plan, which is unfunded, officers earn contribution credits equal to 9 per cent of their eligible earnings in excess of the maximum eligible earnings under the defined contribution registered pension plan. The total unfunded liability for the NEOs as at March 31, 2007 is $235,417 (2006 – $106,442).

[5] Benefits include life insurance, disability benefits, health and dental benefits, time-off policies, and an employee assistance program (EAP). Perquisites include fitness and club dues, paid parking or transit passes, and other miscellaneous remuneration. Does not include pension contributions.

[6] Joined the CPP Investment Board on January 17, 2005

[7] Joined the CPP Investment Board on June 5, 2006.

[8] Annual bonus in 2006 and 2007 included an amount paid in consideration of compensation forgone from Mr. Wiseman's previous employer.

[9] Long-term bonus in 2005, 2006 and 2007 included amounts paid out under previous plans and deferred from 2003, 2004 and 2005.

LTIP Awards Made in Fiscal Year 2007

The following table shows the range of future payouts, calculated before CPP Fund investment returns,[1] generated by LTIP awards granted in fiscal 2007:

TABLE 8: LTIP AWARDS MADE IN FISCAL 2007

	Fiscal 2007 Grant	Vesting Period	Estimated Future Payouts		
			Threshold	Target	Maximum
David F. Denison, CEO	$ 460,000	4 years	$ 0	$ 460,000	$1,380,000
Myra Libenson, COO	$ 108,000	4 years	$ 0	$ 108,000	$ 324,000
Mark D. Wiseman, SVP PRIVATE INVESTMENTS	$ 350,000	4 years	$ 0	$ 350,000	$1,050,000
Donald M. Raymond, SVP PUBLIC MARKET INVESTMENTS	$ 310,000	4 years	$ 0	$ 310,000	$ 930,000
Graeme M. Eadie, SVP REAL ESTATE INVESTMENTS	$ 285,000	4 years	$ 0	$ 285,000	$ 855,000

[1] Actual LTIP payout values will be determined by a combination of an investment fund performance-based multiplier and the CPP Fund's compound rate of return over the four-year vesting period from 2007 to 2010. See LTIP section, above, for discussion

LTIP Awards, Accumulated Value

The total accumulated value as of March 31, 2007 of all long-term bonuses granted but not yet paid, by officer and by payment year, is as follows[1]:

TABLE 9: LTIP AWARDS, ACCUMULATED VALUE

	2008	2009	2010
David F. Denison, CEO[2]	$ 109,232	$1,095,262	$ 999,198
Myra Libenson, COO	–	–	$ 234,594
Mark D. Wiseman, SVP PRIVATE INVESTMENTS	$1,029,406	$ 886,082	$ 789,880
Donald M. Raymond, SVP PUBLIC MARKET INVESTMENTS[2]	$ 251,564	$ 730,175	$ 673,373
Graeme M. Eadie, SVP REAL ESTATE INVESTMENTS	–	$ 487,345	$ 643,188
Total	$1,390,202	$3,198,864	$3,340,233

[1] Accumulated values are estimated by using actual fund and/or asset class performance multipliers for those years where performance is known (i.e., 2006 and 2007), and a target multiplier (1.0x) for future years; and applying the CPP Fund's rates of return for 2006 and 2007
[2] LTIP accumulated value includes awards from plans prior to fiscal 2006

Pension Plans

All employees are eligible, based on compensation, to participate in two pension plans: a defined contribution registered pension plan, and a defined contribution supplementary pension plan.

Under the defined contribution registered pension plan, officers contribute 3 per cent of annual eligible earnings and the CPP Investment Board contributes 6 per cent to the maximum allowed under the *Income Tax Act (Canada)*. Eligible earnings include salary plus annual bonus to a maximum of 50 per cent of total salary.

Under the defined contribution supplementary pension plan, which is unfunded, officers earn contribution credits equal to 9 per cent of their eligible earnings in excess of the maximum eligible earnings under the defined contribution registered pension plan. The total unfunded liability for the named executive officers as at March 31, 2007, is $235,417 (2006 – $106,442).

TABLE 10: PENSION PLAN CONTRIBUTIONS[1]

NAME	Plan Type	CPP Investment Board Contributions to March 31, 2006	CPP Investment Board Contributions in Fiscal 2007	Total CPP Investment Board Contributions to March 31, 2007
David F. Denison, CEO	Registered[2]	$ 19,343	$ 12,765	$ 32,108
	Supplementary[3]	$ 31,196	$ 51,334	$ 82,530
Myra Libenson, COO	Registered[2]	$ 0	$ 13,529	$ 13,529
	Supplementary[3]	$ 0	$ 0	$ 0
Mark D. Wiseman, SVP PRIVATE INVESTMENTS	Registered[2]	$ 14,684	$ 12,784	$ 27,468
	Supplementary[3]	$ 0	$ 23,334	$ 23,334
Donald M. Raymond, SVP PUBLIC MARKET INVESTMENTS	Registered[2]	$ 50,248	$ 12,777	$ 63,025
	Supplementary[3]	$ 75,246	$ 34,423	$ 109,669
Graeme M. Eadie, SVP REAL ESTATE INVESTMENTS	Registered[2]	$ 13,027	$ 12,828	$ 25,855
	Supplementary[3]	$ 0	$ 19,884	$ 19,884

1 Table depicts employer-contributed amounts only
2 Does not include returns on funds invested to the registered pension plan
3 Includes notional investment returns on contribution credits to the supplementary pension plan.

Post-Employment Policies

For the CEO, the COO and the three most highly compensated named executive officers, severance pay is generally set at 12 months of base salary and target bonus, plus one month of salary and target bonus (one-twelfth of the full-year target bonus) for every year of service, up to a cap.

As a Crown corporation, the CPP Investment Board has established no “change of control” policies or payments in its employment arrangements. There are no supplementary payouts under the retirement arrangements.

The following table describes the potential payments upon termination for CPP Investment Board’s named officers:

TABLE 11: POTENTIAL POST-EMPLOYMENT PAYMENTS

NAME	Years of Service[1]	Severance[2]	Resignation	Retirement
David F. Denison, CEO	2	$1,073,333	$ 0	$ 0
Myra Libenson, COO	0	$ 486,000	$ 0	$ 0
Mark D. Wiseman, SVP PRIVATE INVESTMENTS	1	$ 715,000	$ 0	$ 0
Donald M. Raymond, SVP PUBLIC MARKET INVESTMENTS	5	$ 878,333	$ 0	$ 0
Graeme M. Eadie, SVP REAL ESTATE INVESTMENTS	1	$ 902,500	$ 0	$ 0

1 Assumes a notional termination date of March 31, 2007
2 Severance is generally equal to 12 months of base salary plus target short-term bonus, plus one month of salary and target short-term bonus (i.e., full-year target bonus divided by 12) per year of service

Summary

The committee is satisfied that the CPP Investment Board’s current executive compensation policies and levels of compensation are aligned with the CPP Investment Board’s performance. The committee will continue to assess the competitiveness and effectiveness of the CPP Investment Board’s approach to executive compensation, and adjustments will be made as necessary.

Investment Partners

Private Investments

Actera Group
Advent International
AlpInvest Partners
Apax Partners
Apollo Management
Ares Management
Birch Hill Equity Partners
Bridgepoint Capital
Brookfield Asset Management
Candover
Celtic House Venture Partners
Cinven
Clairvest Group
Coller Capital
Credit Suisse First Boston
CVC Capital Partners
Diamond Castle
Edgestone Capital Partners
First Reserve
Goldman Sachs Vintage
Heartland Industrial Partners
Hellman & Friedman
JP Morgan Partners
Kensington Capital Partners
Kohlberg Kravis Roberts & Co.
KSL Capital Partners
Lehman Brothers
Lexington Partners
Lightyear Capital
Lindsay, Goldberg & Bessemer
Lone Star Funds
Matlin Patterson
MDS Capital
MidOcean Partners
MPM Capital
Onex Partners
PAI Partners
Partners Group
Paul Capital Partners
Performance Equity Management
Permira
Perseis
Providence Equity Partners
Silver Lake Partners
Skypoint Capital
Standard Life
SV Life Sciences
TD Capital
Terra Firma Capital Partners
Texas Pacific Group
The Blackstone Group
The Carlyle Group
Thomas H. Lee Partners
Thomas Weisel Partners
Ventures West
Veronis Suhler Stevenson
Welsh, Carson, Anderson & Stowe

Public Market Investments

Arrow Street Capital
Barclays Global Investors
Bridgewater Associates
CBRE Global Real Estate Securities
Connor, Clark & Lunn Investment Management
Enterprise Capital
First Quadrant
Goldman Sachs Asset Management
ING Clarion Real Estate Securities
UBS Global Asset Management

Real Estate Investments

Brookfield Properties
ING Real Estate Investment Management UK
LaSalle Investment Management Inc.
Liquid Realty Partners
Osmington Inc.
Oxford Properties
RioCan Real Estate Investment Trust
TIAA-CREF Asset Management

Infrastructure

Macquarie Bank Limited

Management's Responsibility for Financial Reporting

The Consolidated Financial Statements of the Canada Pension Plan Investment Board (the "CPP Investment Board") have been prepared by management and approved by the board of directors. Management is responsible for the integrity and reliability of the Consolidated Financial Statements and the financial information contained within the annual report.

The Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles. The Consolidated Financial Statements include certain amounts based on management's judgments and best estimates where deemed appropriate. The significant accounting policies used are disclosed in Note 1 to the Consolidated Financial Statements. The financial information presented throughout the annual report is consistent with the Consolidated Financial Statements.

The CPP Investment Board develops and maintains systems of internal control and supporting procedures. The systems of internal control are designed to provide reasonable assurance that assets are safeguarded; that transactions are properly recorded, authorized and are in accordance with the *Canada Pension Plan Investment Board Act*, the accompanying regulations, the by-laws and investment policies of the CPP Investment Board; and that there are no material misstatements in the Consolidated Financial Statements or the financial information contained within the annual report.

The internal control framework includes a strong corporate governance structure, an enterprise-wide risk management framework that indentifies, monitors and reports on key risks facing the organization, code of conduct and conflict of interest procedures, and other policies and guidelines that guide decision-making. The controls also include the establishment of an organization structure that provides a well-defined division of responsibilities and accountability, the selection and training of qualified staff, and the communication of policies and guidelines throughout the organization. The systems of internal control are further supported by a compliance management system to monitor the CPP Investment Board's compliance with legislation and policies and by internal and external auditors who review and evaluate internal controls in accordance with their respective annual audit plans approved by the audit committee.

The audit committee assists the board of directors in discharging its responsibility to approve the annual Consolidated Financial Statements. The audit committee, consisting of five independent directors, meets regularly with management and the internal and the external auditors to discuss the scope and findings of audits and other work they may be requested to perform from time to time, to review financial information and to discuss the adequacy of internal controls. The audit committee reviews and approves the annual financial statements and recommends them to the board of directors for approval.

The CPP Investment Board's external auditors, Deloitte & Touche LLP, have conducted an independent examination of the Consolidated Financial Statements in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express an opinion in their Auditors' Report. The external auditors have full and unrestricted access to management and the audit committee to discuss any findings related to the integrity and reliability of the CPP Investment Board's financial reporting and the adequacy of internal control systems.

D F Denison

DAVID F. DENISON
President and Chief Executive Officer

Myra Libenson

MYRA LIBENSON
Chief Operations Officer

Investment Certificate

The *Canada Pension Plan Investment Board Act* (the "Act") requires that a certificate be signed by a director on behalf of the board of directors, stating that the investments of the CPP Investment Board held during the year were in accordance with the Act and the CPP Investment Board's investment policies, standards and procedures. Accordingly, the Investment Certificate follows.

The investments of the CPP Investment Board, held during the year ended March 31, 2007, were in accordance with the Act and the CPP Investment Board's investment policies, standards and procedures.

ROBERT M. ASTLEY
Chair of the audit committee on behalf of the board of directors
May 10, 2007

Auditors' Report

TO THE BOARD OF DIRECTORS
Canada Pension Plan Investment Board

We have audited the consolidated balance sheet and the consolidated statements of investment portfolio and investment asset mix of the Canada Pension Plan Investment Board (the "CPP Investment Board") as at March 31, 2007, and the consolidated statements of net income and accumulated net income from operations and of changes in net assets for the year then ended. These consolidated financial statements are the responsibility of the CPP Investment Board's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the CPP Investment Board and the investments held as at March 31, 2007 and the results of its operations and changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles, which were applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the CPP Investment Board and those of its subsidiaries that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with the *Canada Pension Plan Investment Board Act* (the "Act") and the by-laws and the by-laws of the subsidiaries, as the case may be.

Further, in our opinion, the record of investments kept by the CPP Investment Board's management pursuant to paragraph 39(1)(c) of the Act fairly presents, in all material respects, the information required by the Act.

Deloitte & Touche LLP

CHARTERED ACCOUNTANTS
Licensed Public Accountants

Toronto, Ontario
May 1, 2007

Consolidated Balance Sheet

AS AT MARCH 31 ($ millions)		2007		2006
ASSETS				
Investments (Note 2)	$	117,465	$	89,781
Amounts receivable from pending trades		2,477		255
Premises and equipment (Note 3)		12		6
Other assets		5		6
TOTAL ASSETS		119,959		90,048
LIABILITIES				
Investment liabilities (Note 2)		1,382		775
Amounts payable from pending trades		2,576		703
Accounts payable and accrued liabilities		66		38
TOTAL LIABILITIES		4,024		1,516
NET ASSETS	$	115,935	$	88,532
NET ASSETS, REPRESENTED BY				
Share capital (Note 5)	$	–	$	–
Accumulated net income from operations		32,766		20,092
Accumulated net transfers from the Canada Pension Plan (Note 6)		83,169		68,440
NET ASSETS	$	115,935	$	88,532

The accompanying notes are an integral part of these Consolidated Financial Statements.

On behalf of the board of directors

GAIL COOK-BENNETT
Chair

ROBERT M. ASTLEY
Chair of the audit committee

Consolidated Statement of Net Income and Accumulated Net Income from Operations

FOR THE YEAR ENDED MARCH 31 ($ millions)	2007	2006
NET INVESTMENT INCOME (Note 7)	$ 12,788	$ 12,193
OPERATING EXPENSES		
Salaries and benefits	72	26
General operating expenses (Note 8a)	31	21
Professional and consulting fees (Note 8b)	11	7
	114	54
NET INCOME FROM OPERATIONS	12,674	12,139
ACCUMULATED NET INCOME FROM OPERATIONS, BEGINNING OF YEAR	20,092	7,953
ACCUMULATED NET INCOME FROM OPERATIONS, END OF YEAR	$ 32,766	$ 20,092

Consolidated Statement of Changes in Net Assets

FOR THE YEAR ENDED MARCH 31 ($ millions)	2007	2006
NET ASSETS, BEGINNING OF YEAR	$ 88,532	$ 58,580
CHANGES IN NET ASSETS		
Canada Pension Plan transfers (Note 6)		
Transfers from the Canada Pension Plan	33,494	34,499
Transfers to the Canada Pension Plan	(18,765)	(16,686)
Net income from operations	12,674	12,139
INCREASE IN NET ASSETS FOR THE YEAR	27,403	29,952
NET ASSETS, END OF YEAR	$ 115,935	$ 88,532

The accompanying notes are an integral part of these Consolidated Financial Statements

Consolidated Statement of Investment Portfolio

The CPP Investment Board's investments are grouped by asset class based on the intent of the investment strategies of the underlying portfolios. The investments, before allocating the market exposure of derivative contracts, associated money market securities and other investment receivables and liabilities to the asset classes to which they relate, are as follows:

AS AT MARCH 31 ($ millions)	Fair Value 2007	Fair Value 2006
EQUITIES (Note 2)		
Canada		
Public equities	$ 14,800	$ 20,003
Private equities	667	455
	15,467	20,458
Foreign		
Public equities	36,656	27,743
Private equities	7,436	3,995
Pooled funds	260	–
	44,352	31,738
TOTAL EQUITIES	59,819	52,196
NOMINAL FIXED INCOME		
Bonds (Note 2c)	27,867	17,288
Money market securities	15,561	10,356
TOTAL NOMINAL FIXED INCOME	43,428	27,644
INFLATION-SENSITIVE ASSETS (Note 2d)		
Public real estate	1,409	1,178
Private real estate	5,441	3,676
Inflation-linked bonds	3,802	3,837
Infrastructure	2,181	350
TOTAL INFLATION-SENSITIVE ASSETS	12,833	9,041
INVESTMENT RECEIVABLES		
Accrued interest	699	513
Derivative receivables (Note 2e)	519	259
Dividends receivable	167	128
TOTAL INVESTMENT RECEIVABLES	1,385	900
TOTAL INVESTMENTS	$ 117,465	$ 89,781
INVESTMENT LIABILITIES		
Debt on private real estate properties (Note 2d)	(1,174)	(664)
Derivative liabilities (Note 2e)	(208)	(111)
TOTAL INVESTMENT LIABILITIES	(1,382)	(775)
Amounts receivable from pending trades	2,477	255
Amounts payable from pending trades	(2,576)	(703)
NET INVESTMENTS	$ 115,984	$ 88,558

The accompanying notes are an integral part of these Consolidated Financial Statements

Consolidated Statement of Investment Asset Mix

This Consolidated Statement of Investment Asset Mix illustrates the full market exposure and is grouped by asset class based on the intent of the investment strategies of the underlying portfolios. The investments, after allocating the market exposure of derivative contracts, associated money market securities and other investment receivables and liabilities to the asset classes to which they relate, are as follows:

AS AT MARCH 31 ($ millions)	2007		2006	
	Fair Value	(%)	Fair Value	(%)
EQUITIES[1]				
Canada	$ 29,174	25.2%	$ 28,965	32.7%
Foreign	46,390	40.0	32,741	37.0
	75,564	65.2	61,706	69.7
NOMINAL FIXED INCOME				
Bonds[2]	28,519	24.6	17,752	20.0
Money market securities[3]	145	0.1	601	0.7
	28,664	24.7	18,353	20.7
INFLATION-SENSITIVE ASSETS				
Real estate[1,4]	5,696	4.9	4,190	4.7
Inflation-linked bonds[1,2]	3,852	3.3	3,959	4.5
Infrastructure[1]	2,208	1.9	350	0.4
	11,756	10.1	8,499	9.6
NET INVESTMENTS	$ 115,984	100%	$ 88,558	100%

[1] Includes derivative receivables and liabilities and associated money market securities

[2] Includes accrued interest.

[3] Includes amounts receivable/payable from pending trades, dividends receivable and accrued interest

[4] Net of mortgage debt on private real estate properties, as described more fully in Note 2d

The accompanying notes are an integral part of these Consolidated Financial Statements

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED MARCH 31, 2007

Organization

The Canada Pension Plan Investment Board (the "CPP Investment Board") was established pursuant to the *Canada Pension Plan Investment Board Act* (the "Act"). The CPP Investment Board is a federal Crown corporation, all of the shares of which are owned by Her Majesty the Queen in right of Canada. The CPP Investment Board is responsible for assisting the Canada Pension Plan (the "CPP") in meeting its obligations to contributors and beneficiaries under the Canada Pension Plan. It is responsible for managing amounts that are transferred to it under Section 108.1 of the *Canada Pension Plan*, and its interest in any bonds transferred to it (described in Note 2), in the best interests of the beneficiaries and contributors. The CPP Investment Board's assets are to be invested with a view to achieving a maximum rate of return without undue risk of loss, having regard to the factors that may affect the funding of the CPP and the ability of the CPP to meet its financial obligations on any given business day.

The Consolidated Financial Statements provide information on the net assets managed by the CPP Investment Board as at March 31, 2007. They exclude certain assets held by the CPP but which will ultimately be transferred to the CPP Investment Board by April 2007. The remaining CPP holdings yet to be transferred to the CPP Investment Board consist of a portfolio of non-marketable federal, provincial and territorial bonds of $630 million at fair market value and are discussed in Note 2. These Consolidated Financial Statements do not include the pension liabilities of the CPP.

The CPP Investment Board has a fiscal year end of March 31.

1. Summary of Significant Accounting Policies

(A) BASIS OF PRESENTATION

The Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles and the requirements of the Act and the accompanying regulations.

These Consolidated Financial Statements present the consolidated financial position and results of operations of the CPP Investment Board, its wholly-owned subsidiaries and the proportionate share of the fair value of assets, liabilities and operations of privately held real estate investments in joint ventures. Inter-company transactions and balances have been eliminated in preparing these Consolidated Financial Statements.

Certain comparative figures have been reclassified to conform with the current-year financial statement presentation.

(B) VALUATION OF INVESTMENTS, INVESTMENT RECEIVABLES AND INVESTMENT LIABILITIES

Investments, investment receivables and investment liabilities are recorded on a trade date basis and are stated at fair value. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Fair value is determined as follows:

(i) Quoted market prices for publicly-traded equities and unit values for public equity and pooled funds are used to represent fair value for these investments. Unit values reflect the quoted market prices of the underlying securities. In the case where quoted market prices are not available or reliable, such as those for securities that are not sufficiently liquid to be used as a basis for fair value, fair value is determined using accepted industry valuation methods.

(ii) Private equity and infrastructure investments are either held directly or through ownership in limited partnership arrangements. The fair value for investments held directly is determined using accepted industry valuation methods. These methods include considerations such as earnings multiples of comparable publicly-traded companies, discounted cash flows and third party transactions, or other events that would suggest a change in the value of the investment. In the case of investments held through a limited partnership, fair value is generally determined based on carrying values and other relevant information reported by the external managers using accepted industry valuation methods. In the first year of ownership, cost is generally considered to be an appropriate estimate of fair value for private equity and infrastructure investments unless there is evidence of a significant change in value.

(iii) Quoted market prices are used to represent the fair value for marketable bonds. Where quoted market prices are not available, fair value is calculated using discounted cash flows based on current market yields of instruments with similar characteristics.

(iv) Fair value for non-marketable Canadian federal, provincial and territorial government bonds is calculated using discounted cash flows based on current market yields of instruments with similar characteristics, adjusted for the non-marketability and rollover provisions of the bonds.

(v) Money market securities are recorded at cost, which, together with accrued interest income, approximates fair value.

(vi) Quoted market prices are used to represent the fair value for public real estate investments.

(vii) The fair value of private real estate investments is determined using accepted industry valuation methods, such as discounted cash flows and comparable purchase and sales transactions. Debt on private real estate investments is valued using discounted cash flows based on current market yields for instruments with similar characteristics. In the first year of ownership, cost is generally considered to be an appropriate estimate of fair value for private real estate investments unless there is evidence of a significant change in value.

(viii) Quoted market prices are used to represent the fair value for inflation-linked bonds.

(ix) Fair value for exchange-traded derivatives, which include equity, bond and interest rate futures, is based on quoted market prices. Fair value for over-the-counter derivatives, which include equity swaps, inflation-linked bond swaps and foreign exchange forward contracts, is determined based on the quoted market prices of the underlying instruments.

(C) **INVESTMENT INCOME RECOGNITION**

Investment income is recorded on the accrual basis and includes realized gains and losses from investments, unrealized gains and losses on investments held at the end of the year, dividend income (recognized on ex-dividend date), interest income and net operating income from private real estate investments.

Realized gains and losses on investments sold during the year represent the difference between sale proceeds and cost, less related costs of disposition. Unrealized gains and losses represent the difference between the fair value and cost of the investments at the end of the year. The current-year unrealized gains and losses represent the year-over-year change in this difference.

(D) **TRANSLATION OF FOREIGN CURRENCIES**

Transactions denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing on the transaction date. Investments and other monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing on the year end date with any resulting gain or loss being included in investment income.

(E) **CANADA PENSION PLAN TRANSFERS**

Amounts from the CPP are recorded as received.

(F) **INCOME TAXES**

The CPP Investment Board and its subsidiaries are exempt from Part I tax under paragraphs 149(1)(d) and 149(1)(d.2) of the *Income Tax Act (Canada)* on the basis that all of the shares of the CPP Investment Board and its subsidiaries are owned by Her Majesty the Queen in right of Canada or by a corporation whose shares are owned by Her Majesty the Queen in right of Canada, respectively.

(G) **USE OF ESTIMATES**

The preparation of Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported values of assets and liabilities as at the date of the financial statements and income and expenses during the reporting period. Significant estimates and judgments are required principally in determining the reported estimated fair values of investments since these determinations include estimates of expected future cash flows, rates of return and the impact of future events. Actual results could differ from those estimates.

(H) **PREMISES AND EQUIPMENT**

Premises and equipment are recorded at cost and amortized on a straight-line basis over their estimated useful lives as follows:

Computer equipment and software	3 years
Office furniture and equipment	5 years
Leasehold improvements	over the term of the leases

(I) **CHANGE IN ACCOUNTING POLICY**

In February 2007, the Canadian Institute of Chartered Accountants ("CICA") amended Accounting Guideline 15 ("AcG-15"), Consolidation of Variable Interest Entities, which results in the CPP Investment Board being no longer subject to the consolidation requirements of AcG-15 as it reports under Accounting Guideline 18 ("AcG-18"), Investment Companies. Effective March 31, 2007, the CPP Investment Board has retrospectively adopted this amendment and, accordingly, is no longer required to consolidate its interests in variable interest entities in which it is the primary beneficiary. This change in accounting policy did not have a material impact on the Consolidated Financial Statements of the CPP Investment Board.

(J) **FUTURE ACCOUNTING POLICY CHANGE**

In April 2005, the CICA issued section 3855, Financial Instruments – Recognition and Measurement, which is effective for fiscal years beginning on or after October 1, 2006. As the CPP Investment Board qualifies as an Investment Company and reports its investments at fair value in accordance with AcG-18, Investment Companies, only certain aspects of section 3855 are applicable.

Effective April 1, 2007, the CPP Investment Board will adopt the fair value measurement considerations of section 3855. The impact to the CPP Investment Board is a change in the way certain investments are valued, expensing of transaction costs when incurred and applying the effective interest method in accounting for interest income on bonds. On April 1, 2007, the investments of the CPP Investment Board will be remeasured to reflect the new valuation standards. This transition adjustment will be recognized in the opening accumulated net income from operations at April 1, 2007, and is not expected to have a material impact on the CPP Investment Board's consolidated financial position.

2. Investments and Investment Liabilities

The CPP Investment Board has established investment policies that set out the manner in which assets shall be invested. In setting the policies, the CPP Investment Board takes into consideration certain specified CPP assets that are held outside of the CPP Investment Board and that are in the process of being transferred to the CPP Investment Board as set out in the following paragraph.

The *Canada Pension Plan*, the Act and an administrative agreement between Her Majesty the Queen in right of Canada and the CPP Investment Board (the "Agreement") together provide for the transfer of certain specified CPP assets currently administered by the federal government to the CPP Investment Board. These assets, totalling $630 million at fair market value as at March 31, 2007, consist of a portfolio of non-marketable federal, provincial and territorial bonds to be transferred to the CPP Investment Board in 36 installments over a period that began May 1, 2004, and ends on April 1, 2007 (see Note 2c).

(A) **INVESTMENT RISK MANAGEMENT**

Investments may be exposed to a variety of financial risks: price risk (including currency risk, interest rate risk and market risk), credit risk and liquidity risk. The CPP Investment Board manages financial risks in accordance with the Act, regulations and the investment policies. In addition, derivatives are used, where appropriate, to manage certain risk exposures (see Note 2e).

Currency Risk: The CPP Investment Board is exposed to currency risk through holdings of investments in various currencies. Fluctuations in the relative value of foreign currencies against the Canadian dollar can result in a positive or negative effect on the fair value of these investments.

The net underlying currency exposures, after allocating foreign currency derivatives, as at March 31 are as follows:

($ millions)	2007		2006	
CURRENCY	Net Exposure	% of Total	Net Exposure	% of Total
Canadian Dollar	$ 68,929	59%	$ 54,387	61%
United States Dollar	23,502	20	18,771	21
Euro	8,744	7	5,900	7
Japanese Yen	5,299	5	3,370	4
British Pound Sterling	4,166	4	3,266	4
Swiss Franc	1,167	1	760	1
Australian Dollar	1,799	2	893	1
Other	2,378	2	1,211	1
Total	$ 115,984	100%	$ 88,558	100%

Interest Rate Risk: Interest rate risk refers to the effect on the fair value of investments due to fluctuations in market interest rates. The fair value of the CPP Investment Board's marketable, non-marketable and inflation-linked bonds and debt on private real estate properties is directly affected by changes in interest rates. At March 31, 2007, should nominal interest rates have increased/decreased by 1%, the fair value of the bonds would decrease/increase by 7% (2006 – 7%).

Market Risk: Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. The CPP Investment Board manages market risk by investing across a wide spectrum of asset classes and investment strategies to earn a diversified risk premium at the total fund, based on risk limits established in the investment policies.

Credit Risk: Credit risk refers to the risk of financial loss due to a counterparty failing to meet its contractual obligations. The CPP Investment Board limits credit risk by dealing with counterparties that have a minimum credit rating of A or R-1 (short term) as determined by a recognized credit rating agency, where available, or as determined through an internal credit rating process. Credit exposure to any single counterparty is limited to maximum amounts as specified in the investment policies.

Liquidity Risk: Liquidity risk is the risk of being unable to generate sufficient cash or its equivalent in a timely and cost-effective manner to meet commitments as they come due. The CPP Investment Board is exposed to liquidity risk through its responsibility for providing cash management services to the CPP, as described in Note 6. The CPP Investment Board mitigates liquidity risk through its unsecured credit facilities (see Note 4).

(B) PRIVATE EQUITY INVESTMENTS

Private equity investments are generally made directly or through ownership in limited partnership arrangements, which have a typical term of 10 years. The private equity investments represent equity ownerships or investments with the risk/return characteristics of equity.

With respect to limited partnership arrangements, the CPP Investment Board advances capital to the limited partnerships, a portion of which, commonly referred to as management fees, is used by the general partners to select and provide ongoing management support to the underlying companies. Management fees generally vary between 1% and 2% of the total amount committed to the limited partnerships, and are included as part of the CPP Investment Board's cost of the investments. During the year ended March 31, 2007, management fees of $131 million (2006 – $87 million) were paid to the limited partnerships and recorded as part of the cost of the investment. As discussed more fully in Note 1b, the carrying values of these investments are reviewed quarterly and any resulting adjustments are reflected as unrealized gains or losses in investment income (see Note 7).

(C) BONDS

Bonds consist of marketable and Canadian government non-marketable bonds. Commencing May 1, 2004, the CPP portfolio of non-marketable bonds has been transferred monthly to the CPP Investment Board. Bonds of $8.0 billion based on fair market value at the time of transfer were transferred during the year ended March 31, 2007.

The non-marketable bonds issued by the provinces and territories and purchased by the CPP prior to 1998 contain a rollover provision that will permit these issuers, at their option, to roll over the bonds for a further 20-year term at a rate based on capital markets borrowing rates existing at the time of rollover. The non-marketable bonds are also redeemable at the option of the issuers for redemption amounts calculated in accordance with Section 110 of the *Canada Pension Plan*.

Effective June 2005, the Agreement was amended to permit the CPP Investment Board to purchase replacement bonds directly from a province or territory upon the maturity of the non-marketable bonds issued by the provinces and territories prior to 1998, subject to the relevant province or territory having entered into an agreement with the CPP Investment Board. The maximum term of such securities is 30 years including rollover periods. The issuer may elect to have the CPP Investment Board purchase a replacement debt security or securities in a total principal amount not exceeding the principal amount of the maturing security for a term of not less than five and not greater than 30 years. Such replacement bonds contain rollover provisions that will permit the issuer, at its option, to roll over the debt security for successive terms of not less than five years and subject in all cases to the maximum 30 years outside maturity date. The replacement bonds are also redeemable at the option of the provinces or territories prior to maturity. Agreements between the CPP Investment Board and the relevant provinces or territories were effective commencing July 1, 2005.

The terms to maturity of the marketable and non-marketable bonds, not including any rollover options, as at March 31 are as follows:

	2007						2006	
	Terms to Maturity							
($ millions)	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years	Total	Average Effective Yield	Total	Average Effective Yield
MARKETABLE BONDS								
Government of Canada	$ –	$ 999	$ 449	$ 752	$ 2,200	4.1%	$ –	–%
Provincial	–	229	300	581	1,110	4.5	–	–
Government corporations	7	539	230	144	920	4.3	–	–
NON-MARKETABLE BONDS								
Government of Canada	691	1,132	13	–	1,836	4.4	2,142	4.5
Provincial and territorial	1,375	8,010	1,905	10,511	21,801	4.9	15,146	5.0
TOTAL	$ 2,073	$ 10,909	$ 2,897	$ 11,988	$ 27,867	4.8%	$ 17,288	5.0%

(D) **INFLATION-SENSITIVE ASSETS**

(i) The CPP Investment Board obtains exposure to real estate through investments in publicly-traded securities and privately held real estate.

Private real estate investments are held by wholly-owned subsidiaries and are managed on behalf of the CPP Investment Board by external advisors and managers through co-ownership arrangements. As at March 31, 2007, the subsidiary's share of these investments includes assets of $5,441 million (2006 – $3,676 million) and $1,174 million of secured debt (2006 – $664 million), with a weighted average fixed interest rate of 6.2 per cent and terms to maturity of one to 20 years.

Included in private real estate are investments in joint ventures. The CPP Investment Board's proportionate interest in joint ventures at March 31 is summarized as follows:

PROPORTIONATE SHARE OF NET ASSETS ($ millions)	2007	2006
Assets	$ 4,790	$ 3,312
Liabilities	(1,174)	(664)
	$ 3,616	$ 2,648

PROPORTIONATE SHARE OF NET INCOME ($ millions)	2007	2006
Revenue	$ 484	$ 273
Expenses	(325)	(183)
	$ 159	$ 90

(ii) The terms to maturity of the inflation-linked bonds as at March 31 are as follows:

	2007						2006	
	Terms to Maturity							
($ millions)	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years	Total	Average Effective Yield	Total	Average Effective Yield
Inflation-linked bonds	$ –	$ 332	$ 560	$ 2,910	$ 3,802	3.3%	$ 3,837	4.8%

(iii) Infrastructure investments are generally made directly, but can also occur through limited partnership arrangements that have a typical term of 10 years. Direct investments do not have management fees, while management fees for limited partnership infrastructure investments are treated similarly to private equity management fees as discussed in Note 2b. During the year ended March 31, 2007, management fees paid to the limited partnerships were $4.7 million (2006 – $5.4 million).

(E) **DERIVATIVE CONTRACTS**

A derivative is a financial contract, the value of which is derived from the value of underlying assets, indexes, interest rates or currency exchange rates. The fair value of these contracts is reported as derivative receivables and derivative liabilities on the Consolidated Statement of Investment Portfolio. In the Consolidated Statement of Investment Asset Mix, the derivative exposure is allocated to the asset class to which each contract relates. Derivative exposure includes the fair value plus the notional amount of the contract.

The CPP Investment Board uses the following types of derivative instruments as described below:

EQUITY AND INFLATION-LINKED BOND SWAPS

Swaps are over-the-counter contractual agreements between two counterparties to exchange financial returns with predetermined conditions based on notional amounts. Swaps are used for yield enhancement purposes or to adjust exposures to certain equities and inflation-linked bonds without directly purchasing or selling the underlying asset. Swap contracts create credit risk exposure due to the possible inability of counterparties to meet the terms of the contracts. There is also risk arising from exposure to movements in equity values, interest rates and foreign exchange rates, as applicable.

EQUITY, INTEREST RATE AND BOND FUTURES

Futures are standardized contracts transacted on an exchange to purchase or sell a specified quantity of equities, interest rate sensitive financial instruments or bonds at a predetermined price and date in the future. Futures are used to adjust exposure to specified equities, interest rate sensitive financial instruments and bonds without directly purchasing or selling the underlying asset. The primary risks associated with futures contracts are related to the exposure to movements in equity values, interest rates and foreign exchange rates, as applicable. Credit risk on exchange-traded futures is limited, as these transactions are executed on regulated exchanges, each of which is associated with a well-capitalized clearing house that assumes the obligations of both counterparties.

FOREIGN EXCHANGE FORWARD CONTRACTS

Foreign exchange forward contracts are over-the-counter contractual agreements negotiated between two counterparties to exchange a specified amount of one currency for a specified amount of a second currency on a predetermined date in the future. Foreign exchange forward contracts are used to manage exposures to currencies other than the Canadian dollar. The primary risks associated with foreign exchange forward contracts arise from exposure to movements in foreign exchange rates and from the possible inability of counterparties to meet the terms of the contract.

All derivative contracts have a term to maturity of one year or less.

Notional amounts of derivative contracts represent the contractual amounts to which a rate or price is applied for computing the cash flows to be exchanged. The notional amounts are used to determine the returns and fair value of the contracts and are a measure of the exposure to the asset class to which the contract relates. They are not recorded as assets or liabilities on the balance sheet. Notional amounts do not represent the potential gain or loss associated with the market risk and are not indicative of the credit risk associated with a derivative contract.

The notional amounts and fair value of derivative contracts held at March 31 are as follows:

	As at March 31, 2007				For the Year Ended March 31, 2007	
($ millions)	Notional Amount	Gross Positive Fair Value	Gross Negative Fair Value	Net Fair Value	Average Gross Positive Fair Value[1]	Average Gross Negative Fair Value[1]
Equity swaps	$ 14,435	$ 373	$ (134)	$ 239	$ 274	$ (156)
Equity futures	1,797	1	(2)	(1)	4	(4)
Foreign exchange forward contracts	19,170	145	(72)	73	132	(147)
Inflation-linked bond swaps	–	–	–	–	–	–
Interest rate and bond futures	–	–	–	–	–	(1)
Total	$ 35,402	$ 519	$ (208)	$ 311	$ 410	$ (308)

	As at March 31, 2006				For the Year Ended March 31, 2006	
($ millions)	Notional Amount	Gross Positive Fair Value	Gross Negative Fair Value	Net Fair Value	Average Gross Positive Fair Value[1]	Average Gross Negative Fair Value[1]
Equity swaps	$ 8,874	$ 213	$ (44)	$ 169	$ 93	$ (45)
Equity futures	1,047	1	(3)	(2)	3	(15)
Foreign exchange forward contracts	6,184	45	(59)	(14)	24	(43)
Inflation-linked bond swaps	126	–	(5)	(5)	4	(5)
Interest rate and bond futures	–	–	–	–	–	–
Total	$ 16,231	$ 259	$ (111)	$ 148	$ 124	$ (108)

[1] Determined using month-end values

(F) SECURITIES LENDING

The CPP Investment Board engages in securities lending to enhance portfolio returns. Credit risk associated with securities lending is mitigated by requiring the borrower to provide daily collateral in the form of readily marketable investments of greater market value than the securities loaned. As at March 31, 2007, the CPP Investment Board's investments include securities loaned with a fair value of $3,047 million (2006 – $1,847 million). The fair value of collateral received in respect of the securities loaned is $3,202 million (2006 – $1,942 million).

(G) COMMISSIONS

Commissions are paid to brokers on purchases and sales of publicly-traded equities. Commissions on purchases are included as part of the cost of publicly-traded equities. Commissions on sales are deducted from realized gains and added to losses as a cost of disposition. During the year ended March 31, 2007, the CPP Investment Board paid total brokerage commissions of $39 million (2006 – $28 million).

3. Premises and Equipment

	2007			2006		
($ thousands)	Cost	Accumulated Amortization	Net Carrying Amount	Cost	Accumulated Amortization	Net Carrying Amount
Computer equipment and software	$ 5,184	$ 2,483	$ 2,701	$ 2,926	$ 1,362	$ 1,564
Office furniture and equipment	3,641	1,251	2,390	1,883	713	1,170
Leasehold improvements	8,649	1,868	6,781	4,620	915	3,705
Total	$ 17,474	$ 5,602	$ 11,872	$ 9,429	$ 2,990	$ 6,439

4. Credit Facilities

The CPP Investment Board maintains $1.5 billion (2006 – $1.5 billion) of unsecured credit facilities to meet potential liquidity requirements. As at March 31, 2007, the total amount drawn on the credit facilities is $nil (2006 – $nil).

5. Share Capital

The issued and authorized share capital of the CPP Investment Board is $100 divided into 10 shares having a par value of $10 each. The shares are owned by Her Majesty the Queen in right of Canada.

6. Canada Pension Plan Transfers

Pursuant to Section 108.1 of the *Canada Pension Plan* and the Agreement, referred to in Note 2 above, amounts not required to meet specified obligations of the CPP are transferred to the CPP Investment Board. The funds originate from employer and employee contributions to the CPP, proceeds of maturing and redeemed government bonds held in a portfolio administered by the federal government and interest income generated from this portfolio.

The CPP Investment Board is responsible for providing cash management services to the CPP, including the periodic return, on at least a monthly basis, of funds required to meet CPP benefits and expenses.

During the year ended March 31, 2007, a total of $33.5 billion was transferred to the CPP Investment Board, including bonds of $8.0 billion, based on fair market value at the time of transfer, and cash of $25.5 billion. During the same year, a total of $18.8 billion was returned to the CPP to meet its liquidity requirements.

The accumulated transfers from the CPP since inception are as follows:

($ millions)	March 31, 2007	March 31, 2006
Accumulated transfers from the Canada Pension Plan	$ 125,289	$ 91,795
Accumulated transfers to the Canada Pension Plan	(42,120)	(23,355)
Accumulated net transfers from the Canada Pension Plan	$ 83,169	$ 68,440

7. Net Investment Income

Investment income is reported net of external investment management fees. Investment management fees in respect of publicly-traded investments are expensed as incurred. These fees include an incentive portion that fluctuates with investment performance. Investment management fees for private real estate investments are deducted by the asset manager before the CPP Investment Board receives its share of net operating income from the properties. For a discussion of private equity and infrastructure management fees, see Notes 2b and 2d.

Net investment income by asset class and after giving effect to derivative contracts and investment receivables and liabilities for the year ended March 31 are as follows:

($ millions)	2007	2006
EQUITIES[1]		
Canada		
Public equities	$ 3,175	$ 7,567
Private equities	77	(13)
	3,252	7,554
Foreign		
Public equities	4,955	3,054
Private equities	1,837	585
Pooled funds	(1)	–
	6,791	3,639
Less: External investment management fees	(10)	(30)
	10,033	11,163
NOMINAL FIXED INCOME[2]		
Bonds	1,184	465
Money market securities	98	41
	1,282	506
INFLATION-SENSITIVE ASSETS		
Public real estate[3]	453	298
Private real estate[4]	855	183
Inflation-linked bonds	30	57
Infrastructure	150	(8)
	1,488	530
Less: External investment management fees	(15)	(6)
	1,473	524
NET INVESTMENT INCOME[5]	$ 12,788	$ 12,193

1 Includes unrealized losses of $922 million (2006 – unrealized gains of $3,715 million), realized gains of $9,333 million net of external investment management fees (2006 – realized gains of $6,449 million net of external investment management fees), dividends of $1,615 million (2006 – $993 million) and securities lending income of $7 million (2006 – $6 million)

2 Includes interest income of $1,645 million (2006 $1,092 million), realized losses of $75 million (2006 realized losses of $44 million) and unrealized losses of $288 million (2006 – unrealized losses of $542 million)

3 Includes unrealized gains of $133 million (2006 – unrealized gains of $260 million), realized gains of $269 million (2006 – realized losses of $0.3 million) and dividends of $51 million (2006 – $38 million)

4 Includes private markets real estate operating income of $230 million (2006 – $110 million), which is net of interest expense of $63 million (2006 – $42 million), unrealized gains of $622 million (2006 – unrealized gains of $73 million) and realized gains of $3 million (2006 – $nil)

5 Includes foreign exchange gains of $1,053 million (2006 – foreign exchange losses of $1,679 million)

8. Operating Expenses

(A) GENERAL OPERATING EXPENSES

General operating expenses consist of the following:

($ thousands)		2007		2006
Custodial fees	$	9,999	$	6,835
Office rent, supplies and equipment		7,162		4,618
Data, performance and information services		5,367		4,021
Travel and accommodation		2,295		1,461
Amortization of premises and equipment		2,648		1,244
Communications		678		865
Directors' remuneration		593		563
Other		1,938		1,580
	$	30,680	$	21,187

(B) PROFESSIONAL AND CONSULTING FEES

Professional and consulting fees consist of the following:

($ thousands)		2007		2006
Consulting	$	8,461	$	5,300
Legal		1,105		1,139
External audit and tax services[1]		1,061		880
	$	10,627	$	7,319

[1] Includes fees paid to the external auditors of the CPP Investment Board for audit services of $946,620 (2006 – $765,000), tax services of $26,090 (2006 - $61,000) and non-audit services of $88,145 (2006 – $54,000).

9. Commitments

The CPP Investment Board has committed to enter into investment transactions, which will be funded over the next several years in accordance with the agreed terms and conditions. As at March 31, 2007, the remaining commitments total $13.4 billion (2006 – $8.3 billion).

As at March 31, 2007, the CPP Investment Board has made lease and other commitments of $54.9 million (2006 – $26.0 million) over the next seven years.

10. Guarantees and Indemnifications

The CPP Investment Board provides indemnifications to its officers, directors and, in certain circumstances, to various counterparties. The CPP Investment Board may be required to compensate these parties for costs incurred as a result of various contingencies such as changes in laws and regulations and litigation claims. The contingent nature of the indemnification agreements prevents the CPP Investment Board from making a reasonable estimate of the maximum potential payments the CPP Investment Board could be required to make. To date, the CPP Investment Board has not received any claims nor made any payments pursuant to such indemnifications.

Board of Directors

The board is responsible for the stewardship of the CPP Investment Board, including oversight of management. Each director possesses business and professional credentials that contribute to effective oversight of the organization. Their credentials include expertise and experience in board and board committee work for financial institutions, senior management, investment, actuarial services, audit, valuation, accounting, retirement and pension consulting, cash flow consulting, public policy, investment, due diligence, corporate finance, governance, equities trading, securities regulation, compensation, risk analysis, performance measurement, private equity, Crown corporations and government interface. Together the board as a whole has the required range of experience and qualifications to fulfill its duties.

GAIL COOK-BENNETT, Chair

Economist, Ph.D. Economics
Toronto, Ontario
Director and Chair since October 1998

Previously held academic positions at the University of Toronto and senior executive positions at Bennecon Ltd., a management consulting firm specializing in advising corporations on cash flow, and the C.D. Howe Institute, Montreal, a public policy institute. Director of Manulife Financial Corporation, Petro-Canada and Emera Inc. Fellow of the Institute of Corporate Directors. Former director of the Bank of Canada, Toronto-Dominion Bank and Ontario Teachers' Pension Plan Board and former member of the Canadian Group of the Trilateral Commission. Ph.D. (Economics) from the University of Michigan. Qualifications include 29 years of experience as a corporate director chairing audit and pension committees and serving on executive, investment, finance, governance and compensation committees.

Investment (chair) and governance committees

ROBERT M. ASTLEY

Fellow, Canadian Institute of Actuaries
Waterloo, Ontario
Director since September 2006

Former president of Sun Life Financial Canada, former president and CEO of Clarica Life Insurance Company. Director of the Bank of Montreal. Member of the Dean's Advisory Council, Laurier School of Business and Economics. Former chair of Canadian Life and Health Insurance Association and of Wilfrid Laurier University. Qualifications include extensive senior management experience in pension and life and health insurance financial services, including oversight of the successful integration of Clarica with Sun Life Financial.

Investment and audit (chair) committees

GERMAINE GIBARA

Chartered Financial Analyst
Montreal, Quebec
Director since November 2002

President and CEO of Avvio Management Inc., a management consulting firm specializing in strategic planning and the commercialization of technology. Served in senior positions with Caisse de dépôt et placement du Québec, TAL Global Asset Management Inc. and Alcan Aluminum Ltd. Director of Sun Life Financial, IFPT Management, Cogeco Cable Inc., Agrium Inc. and St. Lawrence Cement Group Inc. Former co-chair of the Institute for Research on Public Policy. Former director of the Economic Council of Canada. Qualifications include expertise in public pension plan investments with responsibility for private equity at Caisse de dépôt, in management of an international organization as former president of Alcan Automotive Structures and in governance as the former chair of the governance committee at Clarica Life Insurance Company.

Investment, governance and human resources and compensation committees

PETER K. HENDRICK

Chartered Accountant, Chartered Financial Analyst
Toronto, Ontario
Director since October 2004

Former executive vice-president of investments and chief investment officer of Mackenzie Financial Corporation. Former vice-president and director of CIBC Wood Gundy Securities Inc. (now CIBC World Markets) in the Corporate Finance, Institutional Equity and Capital Markets divisions. Former lecturer at the Graduate School of Business Administration at Harvard University in the area of management and financial accounting relating to financial controls. Qualifications include experience in equities trading, due diligence reviews, securities regulation, derivatives, hedging, risk analysis and performance measurement from roles at Mackenzie Financial and CIBC World Markets, and audit experience from Ernst & Young.

Investment and audit committees

JACOB LEVI

Actuary
Vancouver, British Columbia
Director since October 1998. Left the board effective December 2006 after his term expired.

Retired in 2006 from Eckler Partners, actuarial consultants, after more than 30 years as an actuarial consultant – 25 years as partner. Former external actuary to four major public sector pension plans in British Columbia and to the Workers' Compensation Board of British Columbia. Former chairman of the workers' compensation committee of the Canadian Institute of Actuaries and a member of the B.C. executive of the Canadian Pension and Benefits Institute. Qualifications include extensive experience and expertise in pension oversight and actuarial consulting.

Investment, audit and human resources and compensation committees

PHILIP MacDOUGALL

Fellow, Institute of Chartered Accountants of Prince Edward Island
Charlottetown, Prince Edward Island
Director since October 2004

President of MacDougall Consulting. Served as Deputy Minister in several departments in the government of Prince Edward Island, including Finance, Industry and Commerce, and Health & Social Services. Was a member of the Deputy Ministers' Committee on the Canada Pension Plan. Qualifications include experience in oversight of investment management as Deputy Minister of Finance with responsibility for Sinking Fund assets and for the Master Trust for P.E.I. Public Sector Pensions, and as CEO of the Workers' Compensation Board of P.E.I. Expertise in management in a government context, intergovernmental relations and negotiations, pension plan oversight and in board oversight, primarily for Crown corporations.

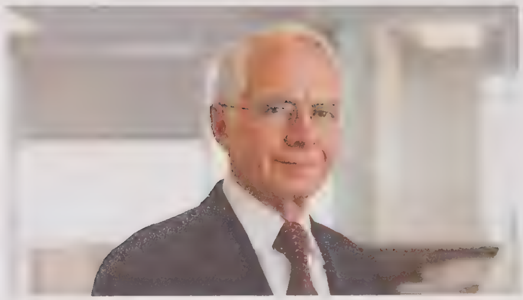
Investment and governance committees

HELEN M. MEYER

Financial Executive
Toronto, Ontario
Director since October 1998. Left the board effective April 2007 after her term expired.

President of Meyer Corporate Valuations Ltd., which specializes in performing valuations of public companies. Served in senior corporate finance positions with Merrill Lynch Canada, Morgan Bank of Canada and Dominion Securities Limited. Former Governor of the Cundill Funds. Former commissioner with the Ontario Securities Commission. Former director of Petro-Canada. Director of the Mutual Fund Dealers Association of Canada and director and vice-president of Forrest Communications Inc. Qualifications include expertise in corporate finance.

Investment, audit and human resources and compensation committees



DALE G. PARKER

Corporate Director
Vancouver, British Columbia
Director since October 1998

Former CEO of the British Columbia Financial Institutions Commission, Bank of British Columbia, and Workers' Compensation Board of British Columbia. Director of Encorp Pacific (Canada), Century Mining Corp., Industrial Alliance Pacific Insurance and Financial Services, and Growth Works Ltd., a venture capital enterprise. Active in senior leadership or board roles at charitable and non-profit organizations. Qualifications include expertise in financial institutions and Crown corporations at the CEO and chair levels and experience in privatization.

Investment, audit and human resources and compensation committees

M. JOSEPH REGAN

Bank Executive (retired)
Port Hope, Ontario
Director since October 1998. Left the board effective September 2006.

Former senior executive vice-president of Royal Bank of Canada, concluding a 40-year career with the bank. Former chair of the Pension Commission of Ontario. Director of the Bank of Tokyo-Mitsubishi-UFJ (Canada). Former director of the Canada Pension Plan Advisory Board and of the Ontario Pension Board, where he chaired the audit committee. Qualifications include high-level senior leadership roles in a financial institution and board experience with public pension plans.

Investment and governance committees

MARY C. RITCHIE

Fellow, Institute of Chartered Accountants of Alberta
Edmonton, Alberta
Director since October 1998. Left the board effective April 2007 after her term expired.

President and CEO of Richford Holdings Ltd. of Alberta, an accounting and investment advisory firm. Governor of Royal Bank Mutual Funds and chair of the audit committees of RBC Funds Inc. and RBC Advisor Global Fund Inc. Director and vice-chair of EPCOR Utilities. Director of Alberta Credit Union Deposit Guarantee Corporation, Industrial Alliance Insurance and Financial Services Inc., Alberta Ingenuity Fund, Isotechnika Inc. and AxCan Pharma. Member of the CICA Accounting Standards Oversight Council. Qualifications include expertise in audit and management consulting for financial institutions.

Investment committee

HELEN SINCLAIR

Financial Executive
Toronto, Ontario
Director since March 2001

CEO of BankWorks Trading Inc., a business television and webcasting company. Former president of the Canadian Bankers Association, and former senior vice-president of Scotiabank. Director of TD Bank Financial Group, McCain Capital Corporation and Bankworks Trading Inc. Trustee of Davis + Henderson Income Fund. Member of the Ontario Securities Act Advisory Committee. Qualifications include extensive experience in senior management roles at financial institutions and on boards of financial institutions.

Investment and governance (chair) committees

RONALD E. SMITH

Fellow, Institute of Chartered Accountants of Nova Scotia
Dartmouth, Nova Scotia
Director since November 2002

Part-time CFO and director of Immunovaccine Technologies Inc. Former senior vice-president and CFO of Emera, Inc., a Halifax-based energy company. Former CFO of Aliant Telecom Inc. and its predecessor, Maritime Telephone & Telegraph Inc. Former director of Bangor Hydro Electric Company. Chair of the Board of Governors of Acadia University. Former partner Ernst & Young. Qualifications include extensive experience in investment, finance and compensation from various CFO roles.

Investment and human resources and compensation (chair) committees

DAVID WALKER

Business Executive
Winnipeg, Manitoba
Director since October 1998

President of West-Can Consultants Ltd. and W.C. Investments Ltd., providing strategic advisory services to major public and private sector organizations. Director and secretary of Beverly Resources Ltd. Former professor of political science at the University of Winnipeg, former member of Parliament for Winnipeg North-Centre, and former parliamentary secretary to the Minister of Finance. Chief federal representative for consultations on the Canada Pension Plan in the 1990s. Chairman of Acsion Industries Inc. Qualifications include expertise in interface with governments and a strong background in the CPP Investment Board's governance model.

Investment and governance committees

The following individuals joined the board in April 2007.

IAN A. BOURNE

Corporate Director
Calgary, Alberta
Director since April 2007

Retired executive vice-president and CFO of TransAlta Corporation, a power generation company, and president of TransAlta Power L.P. Thirty-eight years of experience in senior finance roles at TransAlta, General Electric and Canada Post Corporation. Director and chair of Ballard Power Systems Inc., serving on the audit, corporate governance and management development, nominating and compensation committees. Director of Wajax Income Fund, serving on the audit committee, and Wajax Limited. Former director of TransAlta Power L.P., TransAlta CoGeneration, L.P. and Purolator Courier Ltd. Qualifications include expertise in finance in major corporations and international experience.

Investment, audit and human resources and compensation committees (effective May 10, 2007)

GERALDINE B. SINCLAIR

Corporate Director
Vancouver, British Columbia
Director since April 2007

Executive director of the graduate school program at the new Centre for Digital Media, accredited by the University of British Columbia and three other universities in the province. Former general manager of Microsoft Networks (MSN) Canada and former founder and CEO of NCompass Labs Inc. Director of TSX Group Inc., Ballard Power Systems Inc., B.C. Premier's Technology Council, Canadian Communications Research Council, FINCAD Corporation, the Canadian Foundation for Innovation and Genome B.C. Former chair of the Federal Telecommunications Policy Review Panel. Former director of Telus Communications Inc. and B.C. Telecom Inc. Ph.D. and Doctor of Science (honoris causa). Qualifications include extensive expertise in high technology, board experience in the investment sector, entrepreneurial business experience and government interface.

Investment and governance committees (effective May 10, 2007)

D. MURRAY WALLACE

Fellow, Institute of Chartered Accountants of Ontario
London, Ontario
Director since April 2007

Chairman and CEO of Park Street Capital Corporation, a corporate and investment advisory firm. Former president of Axia NetMedia Corporation. Director of IPSCO Inc., Crown Life Insurance Co., Western Surety Ltd., Terravest Income Fund, and Critical Outcome Technologies Inc. Former director of Ontario Hydro, London Insurance Group and Queen's University School of Business (Advisory Committee) among others. Former Deputy Minister of Finance and Deputy Minister to the Premier for the Government of Saskatchewan. Qualifications include expertise as a chartered accountant, senior-level financial experience from five years as President of Avco Financial Services Canada Ltd. and eight years in executive roles with companies in the Trilon Financial Group, experience in public pension plan management and interface with government.

Investment and human resources and compensation committees (effective May 10, 2007)

Governance Practices of the Board of Directors

This section sets out certain key governance practices of the board of directors. More extensive governance information is posted at www.cppib.ca.

Adopting Best Practices

SAFEGUARDING A SOUND GOVERNANCE MODEL

DUTIES, OBJECTIVE AND MANDATE OF THE BOARD OF DIRECTORS

The board is responsible for the stewardship of the Canada Pension Plan Investment Board, including oversight of management.

As fiduciaries, the directors are required to act honestly and in good faith with a view to the best interests of the CPP Investment Board. They must exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Directors must employ any special knowledge or skill they possess in carrying out their duties.

Among other duties, the directors appoint the chief executive officer and annually review his or her performance; determine with management the organization's strategic direction; review and approve investment policies, standards and procedures; review and approve the annual business plan and budget; appoint the external auditor; establish procedures to identify and resolve conflicts of interest; establish a code of conduct for directors and employees; assess the performance of the board itself including an annual peer review; establish disclosure and other policies; and review and approve the stakeholder communications strategy, including material disclosure such as quarterly and annual financial statements and the annual report.

A key part of the carefully designed governance structure that balances independence with accountability is that investment professionals are accountable to an independent board of directors operating at arm's length from governments with decisions made on the basis of sound investment principles, not political considerations. Directors, like officers and employees, have a positive duty in accordance with the written code of conduct to report immediately any attempted political interference if they have been subjected to pressure with respect to investments, procurement or hiring decisions. As intended by the stewards, directors have always been able to report no interference.

DIRECTOR APPOINTMENT PROCESS

The Canada Pension Plan is governed by an independent board. Directors are appointed by the federal finance minister in consultation with his counterparts in the participating provinces and assisted by an external nominating committee with private sector involvement. The director nomination process is designed to ensure that the board has directors with proven financial ability or relevant work experience so that the CPP Investment Board will be able to effectively achieve its objectives. In keeping with Treasury Board government reforms for Crown corporations implemented during the past few years, the external nominating committee consulted with the board in the latest search for qualified candidates to serve as directors of the CPP Investment Board.

COMPOSITION, MANDATES AND ACTIVITIES OF BOARD COMMITTEES

The board has four committees – investment, audit, human resources and compensation, and governance. Membership of the other committees is shown in the Board Attendance chart on page 83.

The investment committee oversees the core of the CPP Investment Board's business, which is making investment decisions within the context of a risk limit. The committee reviews and recommends to the board the CPP Investment Board's investment policies and reviews, approves and monitors the investment program. It also reviews portfolio risk tolerances and approves the engagement of all external investment managers, as required by legislation, and approves large investment transactions and all custodians. All members of the board serve on the investment committee.

The audit committee oversees financial reporting, the external and internal audit – including appointing the internal auditor and recommending the external auditor for appointment by the board, information systems and internal control policies and practices. It also oversees financial aspects of the employee pension plans and advises the board in connection with any statutorily mandated special examinations. Responsibility for enterprise risk management is shared with the board and other committees. The audit committee regularly meets with both external and internal auditors without management present.

The governance committee ensures that appropriate governance best practices are followed at the CPP Investment Board. The committee monitors application of the code of conduct, recommends governance initiatives, makes recommendations to the board to improve the board's effectiveness, reviews criteria and qualifications for new directors, recommends directors' compensation and establishes and recommends a performance evaluation process for the chief executive officer and board.

The human resources and compensation committee administers the performance evaluation process for the chief executive officer, reviews and recommends the compensation framework, reviews organizational structure and ensures succession planning. It also oversees employee benefits and human resource policies and the employee pension plans.

At every meeting, the board of directors and all committees have *in-camera* sessions, meaning that no member of management is in attendance. As noted above, the audit committee also has *in-camera* meetings with both internal and external auditors. In addition, the board has *in-camera* meetings with the president and chief executive officer in which no other management team member is present.

DECISIONS REQUIRING PRIOR BOARD APPROVAL

Management's discretion in making operational and investment decisions is described in board- or committee-approved policies. In particular, board approval is required for the strategic direction for the organization and the annual business plan and budget. Annual and incentive-based compensation, as well as officer appointments, require board approval.

A COMMITMENT TO CONTINUOUS LEARNING

PROCEDURES FOR BOARD MEMBER ORIENTATION AND EDUCATION

The board has a process in place for new director orientation. This comprehensive full-day session includes discussion of the background, history and mandate of the CPP Investment Board as well as its strategy, business planning process and current corporate and departmental business plans. It also involves interaction between the new directors and management.

In recognition of the evolving nature of a director's responsibilities and the unique nature of the CPP Investment Board, in-house development for all directors is a key focus for the board. Management business presentations are provided on an ongoing basis. Because board members also seek outside perspectives, this year the board arranged seminars from Canada's Chief Actuary, Jean-Claude Ménard; Kurt Winkelmann of Goldman Sachs Asset Management, who spoke about the practical application of risk/return management principles to the CPP Investment Board; John Campbell of Harvard University, who spoke about equity risk premium and long-term investing; and Don Ezra of Russell Investment Group, who discussed the current status of defined benefit pensions and the increasing importance of the CPP.

ACCOUNTABILITY

PROCEDURES FOR THE ASSESSMENT OF BOARD PERFORMANCE

Soon after its inception in October 1998, the board established an annual process for evaluating its own performance, that of the chairperson and that of its committees. In May 2005, the board enhanced the chairperson effectiveness assessment process with a confidential separate assessment. The assessments are conducted through confidential questionnaires that are summarized by an independent consultant. The summaries are reviewed by the full board and provide a basis for action plans for improvement. The board conducts a confidential annual peer review to assist each director in identifying self-development initiatives and assist in providing the external nominating committee with guidance when it considers individual re-appointments. The chairperson places a particular emphasis on discussion following the first steps of the review and meets formally with each director as part of the board and individual director assessment process. As part of a drive for best practices, the board continues to refine and bolster these procedures each year.

BOARD EXPECTATIONS OF MANAGEMENT

Management is expected to comply with the *Canada Pension Plan Investment Board Act* and Regulations as well as all policies approved by the board. Management develops, with involvement from the board, the strategic direction of the organization in response to its growing asset management responsibilities and the outlook for capital markets. The strategy incorporates risk management policies and controls as well as monitoring and reporting mechanisms.

Management is charged with developing benchmarks that objectively measure the performance of the markets and asset classes in which CPP assets are invested. Once approved by the board, benchmarks assist the board in evaluating management's investment performance and structuring performance-based compensation incentives.

The implementation of the CPP Reference Portfolio this year established a relevant benchmark for the CPP Fund which has enabled management to more precisely measure total CPP Fund value-added returns, enabling the board to tailor compensation more precisely to performance.

Management is expected to make full and timely disclosure to the board and the public of all material activities, including new investments, the engagement of operational and investment partners, quarterly and annual financial results, and developments that may affect the CPP Investment Board's reputation.

ROBUST TRANSPARENCY AND DISCLOSURE

TOTAL COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

The total compensation of directors is provided on page 83. Director compensation this year was based in part on data contained in a study prepared by Mercer Human Resources Consulting in March 2004 using relevant data with respect to TSX companies and selected public sector organizations. Directors implemented two board compensation changes this year: a reduction in board meeting fees to $750 from $1,000 for any special meetings conducted by teleconference; and implementation of a separate travel fee for attending meetings in person, ranging from $250 to $1,000 based on distance travelled. Fees that remained unchanged were the annual retainer of $20,000 for each director, in-person board and committee meeting fees of $1,000 per meeting and the annual retainer of $7,500 for each committee chair. Also unchanged at $95,000 was the annual compensation of the chair of the board of directors. The chair is not eligible to receive annual or committee chair retainers or meeting fees unless the fees relate to public meetings.

Director compensation will change for fiscal 2008, effective April 1, 2007, to reflect the responsibilities and time commitment expected. Directors' compensation, which is overseen by the governance committee, is reviewed at least every two years, and any changes are recommended to the board. The last such review occurred in November and December 2006 with the assistance of Mercer Human Resources Consulting. Based in part on the data in that study, the annual retainer for the chairperson will rise to $120,000 and for other directors to $25,000. Non-teleconference meeting fees will increase to $1,500 for board meetings and $1,250 for committee meetings.

A separate independent compensation consulting firm, Hugessen Consulting Inc., advises the human resources and compensation committee on executive compensation. The total compensation of the CEO, the COO and the three most highly compensated officers of the CPP Investment Board is detailed on page 50 of the annual report. Executive officer compensation is partially incentive-based and is reviewed annually by the board. Incentive compensation is awarded based on the achievement of a combination of corporate, investment and personal objectives and is a combination of annual bonus and long-term (four-year) incentive components.

The implementation of the CPP Reference Portfolio this year has enabled the board to tailor executive compensation more precisely toward successful achievement of value-added results as part of a pay-for-performance system. Consistent with the human resources and compensation committee's emphasis on best practice disclosure, executive compensation is detailed at length this year in our first Compensation Discussion and Analysis on page 43.

RESULTS OF SPECIAL AUDIT OR SPECIAL EXAMINATION

At least once every six years, as required under Section 47 of the *Canada Pension Plan Investment Board Act*, the Minister of Finance routinely orders a special examination of the CPP Investment Board's financial and management control and information systems and management practices. The last examination was conducted in 2004 and is available on our website, www.cppib.ca.

A CULTURE OF INTEGRITY

CONFLICT OF INTEREST PROCEDURES

Conflicts of interest were anticipated in the CPP Investment Board's legislation as a result of the need to recruit directors with financial and investment expertise and to engage employees with financial expertise. The code of conduct has been established to manage and, where possible, eliminate such conflicts. The procedures under the legislation and the code of conduct are designed to ensure that directors and employees do not profit or otherwise benefit from a transaction by or with the CPP Investment Board. Stringent disclosure of any personal or business interests that might lead to a real, potential or perceived conflict of interest is required. Further, directors are expected to resign from the board if they take on executive responsibilities with an organization whose objectives and mandates may be, or may reasonably be perceived to be, in conflict with the objectives and mandates of the CPP Investment Board.

It is CPP Investment Board policy that non-audit services being provided by either the internal or external auditor must be approved by the audit committee. Firms that perform an internal or external audit function must also provide confirmation that the provision of non-audit services does not impair their independence.

CODE OF CONDUCT

In the interests of making the code of conduct more accessible, the board this year merged the code of conduct for directors and the code for employees into one "plain language" document. The code can be found on our website at www.cppib.ca.

The code is designed to help create a corporate culture of trust, honesty and integrity. It deals with such matters as relations with suppliers, personal investments and confidentiality of proprietary information. For example, the code establishes strict pre-clearance procedures for personal trading in securities. It also sets out strict limits on the acceptance by directors and employees of entertainment, gifts or special treatment that could create or appear to create a favoured position for actual or potential contractors or suppliers.

As part of the hiring process for all employees, new recruits are required to read and agree to comply with the code of conduct and related personal trading guidelines that together set a high standard in the areas of conflict of interest and ethical conduct. They must reconfirm that compliance semi-annually in writing. When the board hires or conducts annual performance reviews of the chief executive officer and senior vice-presidents, it uses integrity as a key criterion.

To augment the code of conduct, the board of directors decided in 2003 to appoint an external conduct review advisor. This individual, currently the Honourable Frank Iacobucci, is available to discuss ethical issues with directors and employees on a confidential basis.

Board Attendance: Fiscal 2007

The board held 16 meetings in fiscal 2007. The investment committee is a committee of the full board. The table below reflects the number of meetings attended by each director relative to the total number of meetings that director could have attended.

DIRECTOR	Board and Investment Committee[1]	Audit Committee	Governance Committee	Human Resources and Compensation Committee (HRCC)
Gail Cook-Bennett[2]	16/16	4/4	5/6	5/5
Robert M. Astley[3]	8/8	1/1	–	–
Germaine Gibara	15/16	–	6/6	5/5
Peter K. Hendrick	15/16	4/4	–	–
Jacob Levi[4]	13/13	3/3	–	4/4
Philip MacDougall	15/16	–	6/6	–
Helen M. Meyer[5]	14/16	4/4	–	5/5
Dale G. Parker	15/16	4/4	–	4/5
M. Joseph Regan[6]	8/8	–	4/4	–
Mary C. Ritchie[7]	12/16	2/3	–	–
Helen Sinclair	16/16	–	6/6	–
Ronald E. Smith	15/16	–	–	5/5
David Walker	16/16	–	6/6	–

[1] Seven regular meetings and nine special meetings
[2] Chair of board and investment committee and member of governance committee, but attends all committee meetings
[3] Joined the board September 15, 2006, and replaced Mary C. Ritchie as chair of the audit committee effective December 5, 2006
[4] Left the board effective December 31, 2006, after his term expired
[5] Left the board effective April 24, 2007, after her term expired.
[6] Left the board effective September 14, 2006
[7] Left the board effective April 24, 2007, after her term expired.

Directors' Remuneration

DIRECTOR	Annual Retainer	Board and Committee Meeting Fees	Public Meeting Fees	Travel Fees	Total Remuneration
Gail Cook-Bennett, CHAIR	$ 95,000	$ –	$ 10,000	$ –	$ 105,000
Robert M. Astley, CHAIR OF AUDIT COMMITTEE[1]	11,875	9,750	–	–	21,625
Germaine Gibara	20,000	23,500	–	1,750	45,250
Peter K. Hendrick	20,000	17,000	–	–	37,000
Jacob Levi[2]	15,000	18,000	–	6,000	39,000
Philip MacDougall	20,000	18,750	1,000	3,500	43,250
Helen M. Meyer[3]	20,000	21,000	–	–	41,000
Dale G. Parker	20,000	21,000	1,000	7,000	49,000
M. Joseph Regan[4]	10,000	10,750	–	–	20,750
Mary C. Ritchie[5]	25,625	12,250	–	5,000	42,875
Helen Sinclair, CHAIR OF GOVERNANCE COMMITTEE	27,500	19,500	–	–	47,000
Ronald E. Smith, CHAIR OF HRCC	27,500	17,750	1,000	3,500	49,750
David Walker[6]	27,500	19,500	1,000	3,500	51,500
Total	$ 340,000	$ 208,750	$ 14,000	$ 30,250	$ 593,000

Directors' remuneration includes an annual retainer for each director of $20,000, board and committee meeting fees of $1,000 per meeting or $750 if the meeting is held by teleconference, plus an annual retainer of $7,500 for each committee chair. Separate fees are not paid for investment committee meetings when they are held on the same day as board meetings, which is the custom. The Chair of the board of directors receives $95,000 in annual compensation but is not eligible to receive annual or committee chair retainers or meeting fees unless the fees relate to public meetings. Directors who travel to meetings receive a separate travel fee ranging from $250 to $1,000 based on distance travelled

[1] Joined the board September 15, 2006, and replaced Mary C. Ritchie as chair of the audit committee
[2] Left the board effective December 31, 2006, after his term expired
[3] Left the board effective April 24, 2007, after her term expired.
[4] Left the board effective September 14, 2006.
[5] Left the board effective April 24, 2007, after her term expired.
[6] Chair of the ad hoc communications committee

Eight-Year Review

FOR THE YEAR ENDED MARCH 31 ($ billions)	2007	2006	2005	2004	2003	2002	2001	2000
CHANGE IN NET ASSETS								
Income								
Net contributions	5.5	3.6	4.5	4.6	3.1	2.6	1.2	(1.3)
Investment income	13.1	13.1	6.3	10.3	(1.1)	2.3	3.0	1.1
Increase in net assets	18.6	16.7	10.8	14.9	2.0	4.9	4.2	(0.2)

AS AT MARCH 31 ($ billions)	2007	2006	2005	2004	2003	2002	2001	2000
NET ASSETS								
Equities								
Canada	29.2	29.1	27.7	22.6	11.7	10.0	5.0	2.0
Foreign	46.4	32.6	20.9	9.3	5.4	4.1	2.1	0.4
Nominal fixed income								
Bonds	29.2	27.2	28.6	30.2	31.0	32.6	35.3	35.8
Money market securities	0.1	0.6	3.1	7.7	7.2	6.8	6.3	6.3
Inflation-sensitive assets								
Real estate	5.7	4.2	0.8	0.7	0.3	0.1	–	–
Inflation-linked bonds	3.8	4.0	–	–	–	–	–	–
Infrastructure	2.2	0.3	0.2	–	–	–	–	–
Net assets	116.6	98.0	81.3	70.5	55.6	53.6	48.7	44.5
PERFORMANCE (%)								
Rate of return (annual)[1]	12.9%	15.5%	8.5%	17.6%	(1.5)%	4.0%	7.0%	3.2%

[1] Commencing in fiscal 2007, the rate of return reflects the performance of the CPP Fund which excludes the short-term cash required to pay current benefits.

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Management Team

DAVID F. DENISON
President and Chief Executive Officer

JOHN H. BUTLER
Senior Vice-President
General Counsel and Corporate Secretary

IAN M.C. DALE
Senior Vice-President
Communications and Stakeholder Relations

GRAEME M. EADIE
Senior Vice-President
Real Estate Investments

JOHN H. ILKIW
Senior Vice-President
Portfolio Design and Risk Management

MYRA LIBENSON
Chief Operations Officer

DONALD M. RAYMOND
Senior Vice-President
Public Market Investments

DAVID WEXLER
Senior Vice-President
Human Resources

MARK D. WISEMAN
Senior Vice-President
Private Investments

GRAEME BEVANS
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